

Financial Section



2016 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

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RSM US LLP

Independent Auditor's Report

Board of Trustees
Indiana Public Retirement System

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Indiana Public Retirement System (System), a component unit of the State of Indiana, as of June 30, 2016, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Indiana Public Retirement System as of June 30, 2016, and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information:

We have previously audited the System's 2015 financial statements, and we expressed an unmodified opinion in our report dated December 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 28 through 37 and the schedules of changes in net pension liability and net pension liability, schedule of contributions, schedule of investment returns, annual money-weighted rate of return, net of investment expense and the related schedule of notes to required supplementary information on pages 94 through 106 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit for the year ended June 30, 2016 was conducted for the purpose of forming an opinion on the System's financial statements. The other supplementary information consisting of Supporting Schedules in the financial section, and the accompanying introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information for the year ended June 30, 2016 (pages 107 through 110) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended June 30, 2016 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole as of and for the year ended June 30, 2016.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's financial statements as of and for the year ended June 30, 2015 (not presented herein), and have issued our report thereon dated December 4, 2015, which contained an unmodified opinion on those financial statements. The accompanying supplementary information which consists of supporting schedules in the financial section, for the year ended June 30, 2015 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2015 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole for the year ended June 30, 2015.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

RSM US LLP

Indianapolis, Indiana
November 30, 2016

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Indiana Public Retirement System (INPRS) provides a narrative summary of INPRS financial position and performance for fiscal year ended June 30, 2016, including highlights and comparative data. The MD&A is presented as required supplementary information to the financial statements of the INPRS Comprehensive Annual Financial Report (CAFR) and should be read in conjunction with the Letter of Transmittal included in the Introductory Section, and the Financial Statements, the Notes to the Financial Statements, Required Supplementary Information, and the Other Supplementary Schedules presented in the Financial Section.

INPRS is an independent instrumentality of the State of Indiana, administering nine (9) pension trust funds including eight (8) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) other postemployment benefit funds (Death Benefits), and one (1) agency fund. The following retirement plans and non-retirement funds are included in the INPRS financial statements. In this regard, refer to the Notes to the Financial Statements for descriptions of these retirement plans and non-retirement funds.

Defined Benefit Retirement Plans:

- Public Employees' Retirement Fund (PERF)
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
- Teachers' Retirement Fund 1996 Account (TRF 1996)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement System (JRS)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Legislators' Retirement System – Legislators' Defined Benefit Plan (LEDB Plan)

Defined Contribution Retirement Plan:

- Legislators' Retirement System – Legislators' Defined Contribution Plan (LEDC Plan)

Other Postemployment Benefit Funds:

- State Employees' (SE) Death Benefit Fund
- Public Safety Officers' (PSO) Special Death Benefit Fund

Agency Fund:

- Pension Relief Fund (PR Fund)

Financial Highlights

- Total fiduciary net position of INPRS was \$29,872 million as of June 30, 2016, which is restricted for future pension and death benefit payments.
- Total fiduciary net position of INPRS increased by \$11 million or 0.04 percent during fiscal year 2016. The increase is primarily driven by employer and nonemployer contributing entity contributions of \$2,234 million, net investment income of \$325 million, and other additions of \$17 million partially offset by \$2,565 million in benefits and expenses.

Management's Discussion and Analysis, continued

- INPRS contributions primarily from employers, members, and nonemployer contributing entity increased to \$2,234 million during fiscal year 2016, or by \$115 million (5.4 percent), from contributions of \$2,119 million during fiscal year 2015. The increase is primarily due to an increase in contributions from the nonemployer contributing entity and additional contributions required from certain employers for the unfunded actuarial liability existing at the time the employer made an election to limit participation in their pension plan.
- INPRS' fiscal year 2016 time-weighted rate of return was 1.2 percent or \$325 million in net investment income, compared to a time-weighted rate of return of 0.4 percent or \$105 million in net investment income for fiscal year 2015. The money-weighted rate of return for fiscal year 2016 was 1.1 percent compared to a money-weighted rate of return in fiscal year 2015 of 0.4 percent.
- INPRS paid \$2,510 million in pension and disability benefits, special death benefits, and distributions of contributions and interest during fiscal year 2016. This represented a decrease of \$10 million, or 0.4 percent, from the \$2,520 million paid during fiscal year 2015.
- INPRS membership was 462,945 as of June 30, 2016. There were 215,449 active members, 145,522 benefit recipients, 37,525 inactive vested members, and 64,449 inactive non-vested members.
- As of June 30, 2016, the date of the most recent actuarial valuation, the aggregate INPRS (excluding the TRF Pre-1996 Pay-As-You-Go plan) market value of assets funded ratio was 81.9 percent, a decrease of 2.6 percentage points from prior year. The decrease from 84.5 percent market value of assets for fiscal year 2015 was mainly due to assets returns that were less than assumed.

Overview of the Financial Statements

The Financial Section is comprised of four (4) components: (1) Financial Statements, (2) Notes to the Financial Statements, (3) Required Supplementary Information, and (4) Other Supplementary Schedules. The information available in each of these sections is briefly summarized as follows:

■ **Financial Statements**

The Statement of Fiduciary Net Position is a point-in-time snapshot of the INPRS assets and liabilities as of fiscal year end June 30, 2016 and 2015. It reports the fiduciary net position (assets less liabilities equals fiduciary net position) restricted for pension and death benefits. This statement reflects INPRS investments, at fair value, along with cash, receivables, and other assets and liabilities as of June 30, 2016 and 2015.

The Statement of Changes in Fiduciary Net Position reflects the effect of financial transactions that occurred during fiscal year 2016, where additions less deductions equal net increase (or net decrease) in fiduciary net position. Additions come primarily from contributions by employers, members, and the nonemployer contributing entity, which include State appropriations and revenues from lottery proceeds and taxes, as well as net investment income. Deductions are pension, disability and death benefit disbursements, administrative expenses, and other deductions. This increase (or decrease) in fiduciary net position reflects the change in the value of Fiduciary Net Position that occurred between June 30, 2016 and 2015.

■ **Notes to the Financial Statements**

The Notes to the Financial Statements are an integral part of the financial statements and provide additional detailed information that is essential for a full understanding of the data provided in the INPRS financial statements.

Note 1. – provides a general description of the retirement plans and non-retirement funds administered by INPRS. Information regarding membership, member, employer and nonemployer contributing entity contributions, retirement benefits, and disability and survivor benefits for each of the retirement plans is also provided.

Note 2. – provides a summary of significant accounting policies, including the basis of accounting, investment accounting policies, management's use of estimates, and other significant accounting policies.

Note 3. – provides information on cash and investments.

Note 4. – provides information on derivative financial instruments.

Note 5. – provides information on long-term commitments for alternative investments.

Note 6. – provides information on risk management.

Note 7. – provides information on contingent liabilities.

Note 8. – provides information on the net pension liability, funded status and other actuarial information for each of the defined benefit retirement plans.

Note 9. – provides information on events subsequent to fiscal year-end 2016.

■ **Required Supplementary Information**

As a result of the long-term nature of public defined benefit pension plans, financial statements for the past fiscal year alone cannot provide sufficient information to properly reflect the plan fiduciary net position as a percent of the total pension liability of the plans. Therefore, in addition to the basic financial statements, three (3) required schedules of historical trend information related to the defined benefit plans are presented as Required Supplementary Information (RSI) in the Financial Section. The three (3) RSI schedules consist of the Schedule of Changes in Net Pension Liability and Net Pension Liability, the Schedule of Contributions, and the Schedule of Investment Returns. These schedules give historical trend information that is designed to provide decision-usefulness of the financial reports, improved value for assessing accountability and greater transparency related to measures of net pension liabilities impacting INPRS.

■ **Other Supplementary Schedules**

The Other Supplementary Schedules consist of a Pension Relief Statement of Changes in Assets and Liabilities, Schedule of Administrative Expenses, Schedule of Administrative Expenses - Contractual and Professional Services, and Schedule of Investment Expenses.

Financial Analysis

Statement of Fiduciary Net Position

As shown in the table below, the total fiduciary net position for INPRS was \$29,872 million as of June 30, 2016, which represents an increase of \$11 million or 0.04 percent, compared to total fiduciary net position of \$29,861 million as of June 30, 2015.

Fiduciary Net Position

(dollars in millions)

	June 30, 2016	June 30, 2015	Increase / (Decrease)	Percentage Change
Assets				
Cash	\$ 7	\$ 7	\$ -	- %
Receivables	6,539	6,351	188	3.0
Investments	30,872	31,292	(420)	(1.3)
Net Capital and Other Assets	4	8	(4)	(50.0)
Total Assets	37,422	37,658	(236)	(0.6)
Liabilities				
Investment Liabilities	7,367	7,613	(246)	(3.2)
All Other Liabilities	183	184	(1)	(0.5)
Total Liabilities	7,550	7,797	(247)	(3.2)
Total Fiduciary Net Position	\$ 29,872	\$ 29,861	\$ 11	-

Total assets of INPRS were \$37,422 million as of June 30, 2016, compared to \$37,658 million as of June 30, 2015, which represents a decrease in total assets of \$236 million, or 0.6 percent. The primary reasons for this decrease are as follows:

- **Receivables** increased by \$188 million or 3.0 percent, primarily due to an increase in the foreign currency futures contracts receivable of \$172 million. The majority of this amount was created by current hedging positions, which are used to reduce net foreign currency exposure. Foreign currency receivable contracts are overlapped with payable contracts in order to mitigate currency volatility when the original contract expires, which may result in a significant gross foreign currency position as of the Statement of Fiduciary Net Position date.
- **Investments** decreased by \$420 million or 1.3 percent, driven primarily by securities lending collateral decreasing by \$856 million, which was partially offset by an increase in net investment income of \$220 million. The decrease in securities lending collateral of \$856 million or 69.3 percent compared to the prior fiscal year is due to policy changes INPRS implemented in fiscal year 2016, which eliminated the credit risk of the underlying cash collateral provided by the borrowers of the securities lending program. The policy change restricts cash collateral to overnight investments only, which are now eligible for indemnification by BNY Mellon; therefore, the credit risk is transferred from INPRS to BNY Mellon. As a result of only allowing overnight investments, the pool of borrowers who participate in the securities lending program has been reduced. The overall impact of this change on net investment income is minimal for fiscal year 2016.
- **Net Capital and Other Assets** decreased by \$4 million or 50.0 percent primarily due to the sale of the land and building at 143 W. Market Street, Indianapolis, IN and lower amortization due to fully amortized software costs related to certain modernization projects.

Management's Discussion and Analysis, continued

Total liabilities of INPRS were \$7,550 million as of June 30, 2016, compared to \$7,797 million as of June 30, 2015, which represents a decrease in total liabilities of \$247 million, or 3.2 percent. The primary reasons for the decrease are as follows:

- **Investment Liabilities** decreased by \$246 million or 3.2 percent driven primarily by a decrease in securities lending obligations of \$856 million, which is partially offset by an increase in investment trade payables of \$399 million. The decrease in securities lending obligations is consistent with the decrease in securities lending collateral as discussed in the Financial Analysis – Investments section above.
- **All Other Liabilities** decreased by \$1 million or 0.5 percent, primarily due to a decrease in Due to Other Governmental Units related to the Pension Relief Fund.

A summary of fiduciary net position by fund compared to the prior fiscal year is as follows:

Fiduciary Net Position by Fund

(dollars in millions)

	June 30, 2016	June 30, 2015	Increase / (Decrease)	Percentage Change
PERF	\$ 13,871	\$ 13,908	\$ (37)	(0.3) %
TRF Pre-1996	4,788	5,100	(312)	(6.1)
TRF 1996	5,611	5,379	232	4.3
1977 Fund	4,951	4,828	123	2.5
JRS	442	437	5	1.1
EG&C Plan	111	110	1	0.9
PARF	53	54	(1)	(1.9)
LEDB Plan	3	3	-	-
LEDC Plan	28	28	-	-
SE Death Benefit Fund	8	8	-	-
PSO Special Death Benefit Fund	6	6	-	-
Total Fiduciary Net Position	\$ 29,872	\$ 29,861	\$ 11	-

Liquidity

Liquidity is critically important because the INPRS' defined benefit plan has a fiduciary responsibility to disburse monthly benefit payments. Liquidity needs are met through employer, member, nonemployer contributing entity, and other contributions, earnings from investments, and the well diversified portfolio of INPRS. Having sufficient cash on hand and/or the ability to quickly convert securities to cash is important for several reasons: 1) sufficient liquidity ensures INPRS does not sell high-quality long-term assets in order to meet short-term funding needs, 2) liquidity ensures INPRS is able to tactically react to market opportunities and 3) liquidity enables INPRS to invest in long-term assets (private equity, real estate).

As of June 30, 2016, INPRS estimates 30 percent of the Consolidated Defined Benefit assets could be liquidated in one week, 68 percent of the assets could be liquidated within one month, and 78 percent of the portfolio could be liquidated within six months without a significant market impact.

Statement of Changes in Fiduciary Net Position

As shown in the table below, the total fiduciary net position for INPRS increased by \$11 million or 0.04 percent, for fiscal year 2016, compared to a total fiduciary net position decrease of \$336 million, or 1.1 percent as of June 30, 2015. A summary of changes in fiduciary net position during the fiscal years ended June 30, 2016 and June 30, 2015 is presented below:

(dollars in millions)	June 30, 2016	June 30, 2015	Increase / (Decrease)	Percentage Change
Additions				
Member Contributions	\$ 334	\$ 349	\$ (15)	(4.3) %
Employer Contributions	1,012	924	88	9.5
Nonemployer Contributing Entity	888	846	42	5.0
Net Investment Income	325	105	220	209.5
Other Additions	17	17	-	-
Total Additions	2,576	2,241	335	14.9
Deductions				
Benefits – Pension, Disability, Death	2,430	2,431	(1)	-
Distributions of Contributions and Interest	80	89	(9)	(10.1)
Administrative Expenses	39	40	(1)	(2.5)
Other Deductions	16	17	(1)	(5.9)
Total Deductions	2,565	2,577	(12)	(0.5)
Net Increase / (Decrease) in Fiduciary Net Position	\$ 11	\$ (336)	\$ 347	(103.3)

Additions

Additions to the fiduciary net position of INPRS needed to finance retirement benefits are accumulated primarily through contributions and investment income. Total additions for INPRS were \$2,576 million for fiscal year 2016, compared to \$2,241 million for fiscal year 2015, which represents an increase in total additions of \$335 million, or 14.9 percent. The primary reasons for the increase are as follows:

- **Contributions** increased by \$115 million or 5.4 percent. The increase is primarily due to an increase in contributions from the nonemployer contributing entity and additional contributions required from certain employers for the unfunded actuarial liability existing at the time the employer made an election to limit participation in their pension plan.
- **Net Investment Income** increased by \$220 million or 209.5 percent, driven by a 1.2 percent time-weighted rate of return in fiscal year 2016, compared to a 0.4 percent time-weighted rate of return for fiscal year 2015. The money-weighted rate of return for fiscal year 2016 was 1.1 percent compared to fiscal year 2015 rate of return of 0.4 percent.

Deductions

Benefit payments, distributions of contributions and interest to members who terminate employment, and administrative expenses primarily comprise the INPRS expenses or deductions from fiduciary net position. Total deductions for INPRS were \$2,565 million for fiscal year 2016, compared to \$2,577 million for fiscal year 2015, which represents a decrease in total deductions of \$12 million, or 0.5 percent. The primary reason for the decrease is as follows:

- **Distribution of Contributions and Interest** decreased by \$9 million or 10.1 percent as a result of fewer inactive members withdrawing their funds.

Consolidated Defined Benefit Asset Allocation and Rate of Return on Investments

The INPRS Board of Trustees adopted a new Investment Policy Statement (IPS) effective October 23, 2015. The asset allocation outlined within the IPS is for the Consolidated Defined Benefit portfolio. A substantial amount of the investments for the retirement plans administered by INPRS are pooled within the Consolidated Defined Benefit portfolio. The following table is a comparison of INPRS' Consolidated Defined Benefit target asset allocation as compared to INPRS current investment allocations as of June 30, 2016 and the actual allocations as of June 30, 2015.

Consolidated Defined Benefit Asset Allocation

Asset Class	June 30, 2016 Actual	June 30, 2016 Target	June 30, 2015 Actual	Allowable Range for Investments ¹
Public Equity	22.3 %	22.0 %	22.4 %	19.5 to 24.5 %
Private Equity	13.3	10.0	12.9	7.0 to 13.0
Fixed Income - Ex Inflation-Linked ²	21.1	24.0	21.6	21.0 to 27.0
Fixed Income - Inflation-Linked	7.4	7.0	10.0	4.0 to 10.0
Commodities	7.4	8.0	7.5	6.0 to 10.0
Real Estate	6.6	7.0	6.2	3.5 to 10.5
Absolute Return	9.2	10.0	9.4	6.0 to 14.0
Risk Parity	11.0	12.0	10.0	7.0 to 17.0
Cash + Cash Overlay ³	1.7	N/A	N/A	
Total	100.0 %	100.0 %	100.0 %	

¹See Notes to the Financial Statements, Note 3, for additional information.

²June 30, 2015 includes cash and cash equivalents of 1.0%.

³INPRS does not have a target allocation to cash as an asset class. INPRS implemented a Cash Overlay program in April 2016.

The Consolidated Defined Benefit Assets time-weighted rate of return on investments was 1.2 percent for fiscal year 2016, compared to the 6.75 percent actuarial-assumed long-term rate of return. The fiscal year 2016 time-weighted rate of return was 1.2 percentage points higher than fiscal year 2015 time-weighted rate of return of 0.0 percent. A brief summary of the rate of return for each asset class for fiscal year 2016, compared to the respective benchmark for each asset class is provided below; however, the investment section of the Comprehensive Annual Financial Report (CAFR) provides additional information regarding INPRS investments.

- **Public Equity** seeks to provide long-term capital appreciation and income through exposure to public equity securities. The public equity portfolio had an investment rate of return of (4.3) percent for fiscal year 2016, which underperformed the MSCI All Country World IMI Index by 0.4 percent over the same time period.

Management's Discussion and Analysis, continued

- **Private Equity** seeks to provide risk-adjusted returns in excess of the public equity markets while simultaneously decreasing the volatility of the investment portfolio through diversification. The private equity portfolio had an investment rate of return of 6.8 percent for fiscal year 2016, which outperformed the Russell 3000 plus 300 basis point custom index by 1.7 percent over the same time period.
- **Fixed Income – Ex Inflation-Linked** seeks to generate current income and long-term risk-adjusted returns through investments in debt securities. The fixed income – ex inflation-linked portfolio had an investment rate of return of 8.9 percent for fiscal year 2016, which underperformed the custom index which is a representation of the sub-asset class target allocations within the fixed income portfolio by 0.4 percent over the same time period.
- **Fixed Income – Inflation-Linked** or Treasury Inflation Protected Securities (TIPS) seeks to generate long-term risk-adjusted returns through investments in inflation-linked securities as well as provide protection against unanticipated inflation. The fixed income – inflation-linked portfolio had an investment rate of return of 5.4 percent for fiscal year 2016, which outperformed the Global Inflation-Linked 70/30 custom bond index by 0.1 percent over the same time period.
- **Commodities** seek to enhance long-term risk-adjusted returns by preserving investment capital, lowering overall portfolio volatility, and providing a hedge against unanticipated inflation. The commodities portfolio had an investment rate of return of (19.6) percent for fiscal year, which underperformed custom commodities index of the 50/50 blend of the Bloomberg Commodity Index and the Goldman Sachs Commodity Index by 1.2 percent over the same time period.
- **Real Estate** seeks to generate attractive risk-adjusted returns by providing stable current income, preserving investment capital, and curtailing volatility by serving as a hedge against unanticipated inflation. The real estate portfolio had an investment rate of return of 8.1 percent for fiscal year 2016, which underperformed the NCREIF Open End Diversified Core Equity Index by 4.5 percent over the same time period.
- **Absolute Return** seeks to enhance the long-term risk-adjusted returns by providing diversification benefits, while preserving capital and reducing volatility. The absolute return portfolio had an investment rate of return of (2.9) percent for fiscal year 2016, which underperformed the HFRI custom benchmark by 1.5 percent over the same time period.
- **Risk Parity** seeks a risk-balancing methodology capable of delivering consistent and high risk-adjusted returns in several macro-economic environments. The risk parity portfolio had an investment rate of return of 1.7 percent for fiscal year 2016, which outperformed the custom index of a 60/40 blend of the MSCI ACWI IMI Index and the Barclays Global Aggregate Bond Index by 0.9 percent over the same time period.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. A pension fund is fully funded when it has enough money in reserve to meet all expected future obligations to participants. The goal for the defined benefit retirement plans is to make progress toward achieving full funding.

With the implementation of GASB Statement No. 67, the Actuarial Value of Assets (AVA) is no longer to be used for financial reporting purposes. The Market Value of Assets (MVA) is required for financial reporting purposes; however, the Actuarial Value of Assets (AVA) will continue to be used for funding purposes as presented in the Actuarial Section.

Management's Discussion and Analysis, continued

The market value funded ratios of the defined benefit retirement plans administered by INPRS as of the latest actuarial valuations were as follows:

Historical Trends

Pre-Funded Defined Benefit Pension Trust Funds	June 30, 2016	June 30, 2015
PERF	75.3 %	77.3 %
TRF 1996 Account	87.8	91.1
1977 Fund	98.2	103.2
JRS	88.2	93.3
EG&C Plan	80.1	82.9
PARF	62.1	68.6
LEDB Plan	72.7	73.4
Pay-As-You-Go Defined Benefit Pension Trust Fund		
TRF Pre-1996 Account	28.4	30.0

An analysis of the funding progress, contributions and a discussion of actuarial assumptions and methods is set forth in Note 8 and in the Required Supplementary Information of the Financial Section. For additional actuarial-related information on a funding basis, refer to the Actuarial Section of the CAFR.



Indiana Public Retirement System

Statement of Fiduciary Net Position

As of June 30, 2016 (with Comparative Totals as of June 30, 2015)¹

(dollars in thousands)

Pension Trust Funds

	Public Employees' Retirement Fund	Teachers' Retirement Fund Pre-1996 Account	Teachers' Retirement Fund 1996 Account	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	EG&C Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan
Assets									
Cash	\$ 3,810	\$ 662	\$ 1,624	\$ 1,035	\$ 4	\$ 40	\$ -	\$ -	\$ 2
Receivables:									
Contributions	57,084	2,702	1,658	1,985	-	-	-	-	-
Miscellaneous	2,566	754	209	735	71	-	31	-	414
Investments	187,758	63,877	75,814	77,014	6,873	1,732	821	45	328
Foreign Exchange Contracts	2,698,361	875,927	1,064,393	1,183,907	105,653	26,621	12,626	699	2,524
Interest and Dividends	36,785	13,606	15,341	12,231	1,091	275	130	7	107
Due From Other Funds	2,476	625	707	-	-	-	-	-	-
Total Receivables	2,985,030	957,491	1,158,122	1,275,872	113,688	28,628	13,608	751	3,373
Investments:									
Short Term	7,870	10,778	5,915	-	-	-	-	-	1
Pooled Unit Trust Assets:									
Repurchase Agreements	2,908	937	1,142	1,285	115	29	14	1	2
Short Term	806,826	271,426	322,782	330,506	29,495	7,432	3,525	195	1,153
Fixed Income	5,369,288	1,911,240	2,129,316	1,586,481	141,580	35,673	16,919	937	6,463
Equities	3,299,750	1,306,267	1,461,266	1,115,021	99,506	25,071	11,891	658	16,849
Alternative	4,571,214	1,473,310	1,795,974	2,020,558	180,296	45,427	21,546	1,193	3,658
Derivatives	(437)	(121)	(158)	(222)	(20)	(5)	(2)	-	1
Securities Lending Collateral	171,532	55,285	67,393	75,821	6,766	1,705	809	45	137
Total Investments	14,228,951	5,029,122	5,783,630	5,129,450	457,738	115,332	54,702	3,029	28,264
Other Assets	435	-	-	-	-	-	-	-	-
Gross Capital Assets	10,783	2,583	2,382	579	23	22	17	1	3
Less: Accumulated Depreciation and Amortization	(8,360)	(2,126)	(1,966)	(470)	(18)	(18)	(14)	(1)	(3)
Net Capital Assets	2,423	457	416	109	5	4	3	-	-
Total Assets	17,220,649	5,987,732	6,943,792	6,406,466	571,435	144,004	68,313	3,780	31,639
Liabilities									
Accounts Payable	2,823	328	261	86	5	5	4	2	2
Retirement Benefits Payable	10,452	113,660	15,727	2,593	-	-	20	-	1
Salaries and Benefits Payable	3,269	-	-	-	-	-	-	-	-
Investments Payable	350,674	117,666	139,971	143,497	12,806	3,227	1,530	85	474
Foreign Exchange Contracts Payable	2,688,780	872,852	1,060,639	1,179,653	105,274	26,525	12,580	696	2,518
Securities Lending Obligations	171,532	55,285	67,393	75,821	6,766	1,705	809	45	137
Obligations Under Reverse Repurchase Agreement	121,285	39,090	47,652	53,610	4,784	1,205	572	32	97
Due to Other Funds	1,332	1,322	919	207	10	8	6	1	-
Due to Other Governments	-	-	-	-	-	-	-	-	-
Total Liabilities	3,350,147	1,200,203	1,332,562	1,455,467	129,645	32,675	15,521	861	3,229
Total Net Position Restricted	\$ 13,870,502	\$ 4,787,529	\$ 5,611,230	\$ 4,950,999	\$ 441,790	\$ 111,329	\$ 52,792	\$ 2,919	\$ 28,410

¹The accompanying notes are an integral part of the financial statements.

Indiana Public Retirement System

Statement of Fiduciary Net Position, continued As of June 30, 2016 (with Comparative Totals as of June 30, 2015)¹

(dollars in thousands)	Other Postemployment Benefit Funds				Agency Fund		INPRS Totals	
	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Trust and Other Postemployment Benefit Funds 2016 Totals	Pension Trust and Other Postemployment Benefit Funds 2015 Totals	Pension Relief Fund 2016	Pension Relief Fund 2015	2016 INPRS Totals	2015 INPR Totals
Assets								
Cash	\$ 1	\$ 58	\$ 7,236	\$ 7,076	\$ 339	\$ 200	\$ 7,575	\$ 7,276
Receivables:								
Contributions	-	-	63,429	11,332	2,500	2,500	65,929	13,832
Miscellaneous	-	-	4,780	3,805	-	-	4,780	3,805
Investments	-	-	414,262	448,280	-	-	414,262	448,280
Foreign Exchange Contracts	-	-	5,970,711	5,798,575	-	-	5,970,711	5,798,575
Interest and Dividends	-	-	79,573	83,602	-	-	79,573	83,602
Due From Other Funds	-	-	3,808	3,164	-	-	3,808	3,164
Total Receivables	-	-	6,536,563	6,348,758	2,500	2,500	6,539,063	6,351,258
Investments:								
Short Term	-	-	24,564	40,632	26,957	30,356	51,521	70,988
Pooled Unit Trust Assets:								
Repurchase Agreements	-	-	6,433	-	-	-	6,433	-
Short Term	104	78	1,773,522	1,267,167	-	-	1,773,522	1,267,167
Fixed Income	8,245	6,169	11,212,311	11,795,888	-	-	11,212,311	11,795,888
Equities	-	-	7,336,279	7,295,458	-	-	7,336,279	7,295,458
Alternative	-	-	10,113,176	9,624,414	-	-	10,113,176	9,624,414
Derivatives	-	-	(964)	2,711	-	-	(964)	2,711
Securities Lending Collateral	-	-	379,493	1,234,987	-	-	379,493	1,234,987
Total Investments	8,349	6,247	30,844,814	31,261,257	26,957	30,356	30,871,771	31,291,613
Other Assets	-	-	435	503	-	-	435	503
Gross Capital Assets	-	-	16,393	19,535	2	2	16,395	19,537
Less: Accumulated Depreciation and Amortization	-	-	(12,976)	(12,509)	(2)	(2)	(12,978)	(12,511)
Net Capital Assets	-	-	3,417	7,026	-	-	3,417	7,026
Total Assets	8,350	6,305	37,392,465	37,624,620	29,796	33,056	37,422,261	37,657,676
Liabilities								
Accounts Payable	-	-	3,516	4,291	12	15	3,528	4,306
Retirement Benefits Payable	-	-	142,453	140,131	-	-	142,453	140,131
Salaries and Benefits Payable	-	-	3,269	2,680	-	-	3,269	2,680
Investments Payable	2	2	769,934	370,754	-	-	769,934	370,754
Foreign Exchange Contracts Payable	-	-	5,949,517	5,819,991	-	-	5,949,517	5,819,991
Securities Lending Obligations	-	-	379,493	1,234,987	-	-	379,493	1,234,987
Obligations Under Reverse Repurchase Agreement	-	-	268,327	187,635	-	-	268,327	187,635
Due to Other Funds	-	-	3,805	3,162	3	2	3,808	3,164
Due to Other Governments	-	-	-	-	29,781	33,039	29,781	33,039
Total Liabilities	2	2	7,520,314	7,763,631	29,796	33,056	7,550,110	7,796,687
Total Net Position Restricted	\$ 8,348	\$ 6,303	\$ 29,872,151	\$ 29,860,989	\$ -	\$ -	\$ 29,872,151	\$ 29,860,989

¹The accompanying notes are an integral part of the financial statements.

Indiana Public Retirement System

Statement of Changes in Fiduciary Net Position For the Year Ended June 30, 2016 (with Comparative Totals for the Year Ended June 30, 2015)¹

(dollars in thousands)

Pension Trust Funds

	Public Employees' Retirement Fund	Teachers' Retirement Fund Pre-1996 Account	Teachers' Retirement Fund 1996 Account	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	EG&C Plan	Prosecuting Attorneys' Retirement Fund
Additions							
Contributions:							
Member	\$ 161,905	\$ 31,529	\$ 88,430	\$ 44,918	\$ 3,239	\$ 1,016	\$ 1,279
Employer	615,773	5,048	215,626	151,674	16,946	5,367	1,440
Nonemployer Contributing Entity	-	887,500	-	-	-	-	-
Total Contributions	777,678	924,077	304,056	196,592	20,185	6,383	2,719
Investment Income:							
Net Appreciation/(Depreciation)							
Fair Value of Investments	37,555	(466)	20,335	23,882	2,019	497	201
Other Net Investment Income	1,422	498	549	612	55	13	7
Net Interest and Dividends Income	190,860	69,208	73,864	67,502	6,080	1,527	733
Securities Lending Income	1,876	645	723	821	74	18	8
Total Net Investment Income	231,713	69,885	95,471	92,817	8,228	2,055	949
Less Direct Investment Expenses:							
Investment Management Fees	(72,529)	(25,259)	(28,086)	(30,789)	(2,772)	(697)	(334)
Securities Lending Fees	(347)	(119)	(135)	(152)	(14)	(3)	(2)
Direct Investment Expenses	(8,943)	(2,078)	(3,047)	(1,556)	(119)	(42)	(24)
Total Direct Investment Expenses	(81,819)	(27,456)	(31,268)	(32,497)	(2,905)	(742)	(360)
Net Investment Income / (Loss)	149,894	42,429	64,203	60,320	5,323	1,313	589
Other Additions:							
Miscellaneous Income	905	-	16	143	-	-	-
Member Reassignments	5,543	4,057	6,587	-	-	-	-
Total Other Additions	6,448	4,057	6,603	143	-	-	-
Total Additions	934,020	970,563	374,862	257,055	25,508	7,696	3,308
Deductions							
Pension and Disability Benefits	879,088	1,266,950	124,302	127,935	20,911	6,132	3,493
Special Death Benefits	-	-	-	774	-	-	-
Distribution of Contributions and Interest	57,184	6,004	10,988	4,037	11	113	254
Administrative Expenses	24,098	6,564	5,603	1,651	148	139	193
Member Reassignments	10,814	3,426	1,852	74	-	21	-
Total Deductions	971,184	1,282,944	142,745	134,471	21,070	6,405	3,940
Net Increase / (Decrease)	(37,164)	(312,381)	232,117	122,584	4,438	1,291	(632)
Beginning Net Position Restricted	13,907,666	5,099,910	5,379,113	4,828,415	437,352	110,038	53,424
Ending Net Position Restricted	\$ 13,870,502	\$ 4,787,529	\$ 5,611,230	\$ 4,950,999	\$ 441,790	\$ 111,329	\$ 52,792

¹The accompanying notes are an integral part of the financial statements.

²The Pension Relief Fund is an Agency Fund, and is not included in the Statement of Changes in Fiduciary Net Position.

Indiana Public Retirement System

Statement of Changes in Fiduciary Net Position, continued For the Year Ended June 30, 2016 (with Comparative Totals for the Year Ended June 30, 2015)¹

(dollars in thousands)

	Pension Trust Funds		Other Postemployment Benefit Funds		INPRS Totals ²	
	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Trust and Other Postemployment Benefit Funds 2016 Totals	Pension Trust and Other Postemployment Benefit Funds 2015 Totals
Additions						
Contributions:						
Member	\$ -	\$ 1,763	\$ -	\$ -	\$ 334,079	\$ 348,789
Employer	138	-	-	-	1,012,012	923,759
Nonemployer Contributing Entity	-	-	-	611	888,111	846,122
Total Contributions	138	1,763	-	611	2,234,202	2,118,670
Investment Income:						
Net Appreciation/(Depreciation) Fair Value of Investments	4	(27)	337	249	84,586	(116,790)
Other Net Investment Income	-	2	-	-	3,158	4,588
Net Interest and Dividends Income	42	256	4	1	410,077	407,200
Securities Lending Income	1	2	-	-	4,168	4,200
Total Net Investment Income	47	233	341	250	501,989	299,198
Less Direct Investment Expenses:						
Investment Management Fees	(19)	(72)	(5)	(3)	(160,565)	(177,673)
Securities Lending Fees	-	-	-	-	(772)	(677)
Direct Investment Expenses	(1)	(10)	(1)	(1)	(15,822)	(15,848)
Total Direct Investment Expenses	(20)	(82)	(6)	(4)	(177,159)	(194,198)
Net Investment Income / (Loss)	27	151	335	246	324,830	105,000
Other Additions:						
Miscellaneous Income	-	14	-	-	1,078	188
Member Reassignments	-	-	-	-	16,187	17,591
Total Other Additions	-	14	-	-	17,265	17,779
Total Additions	165	1,928	335	857	2,576,297	2,241,449
Deductions						
Pension and Disability Benefits	359	-	-	-	2,429,170	2,429,896
Special Death Benefits	-	-	-	150	924	1,010
Distribution of Contributions and Interest	-	1,794	-	-	80,385	88,659
Administrative Expenses	61	12	-	-	38,469	40,456
Member Reassignments	-	-	-	-	16,187	17,591
Total Deductions	420	1,806	-	150	2,565,135	2,577,612
Net Increase / (Decrease)	(255)	122	335	707	11,162	(336,163)
Beginning Net Position Restricted	3,174	28,288	8,013	5,596	29,860,989	30,197,152
Ending Net Position Restricted	\$ 2,919	\$ 28,410	\$ 8,348	\$ 6,303	\$ 29,872,151	\$ 29,860,989

¹The accompanying notes are an integral part of the financial statements.

²The Pension Relief Fund is an Agency Fund, and is not included in the Statement of Changes in Fiduciary Net Position.

Note 1. Descriptions of System and Plans

Administration of System and Plans

The Indiana Public Retirement System (INPRS) administers nine (9) pension trust funds including eight (8) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) Other Postemployment Benefit funds and one (1) Agency fund. INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria: one (1) trustee with experience in economics, finance, or investments, one (1) trustee with experience in executive management of benefits administration, one (1) trustee who is an active or retired member of the 1977 Fund, two (2) trustees who are TRF members with at least 10 years of creditable service, one (1) trustee who is a PERF member with at least 10 years of creditable service, Director of the State Budget Agency, or designee, Auditor of State, or nominee, and Treasurer of State, or nominee.

(A) Public Employees' Retirement Fund

Plan Description

The Public Employees' Retirement Fund (PERF) is a cost-sharing, multiple-employer defined benefit plan based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, or township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Details of the PERF Hybrid Plan and PERF ASA Only Plan are described below.

Membership

PERF members are officers and employees of units of State and local governments in Indiana (referred to as political subdivisions), including counties, cities, towns, townships, libraries, and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the plan. The ordinance or resolution is filed with and approved by INPRS. In order to be a member, employees hired after June 30, 1982, except employees of a participating school corporation, must occupy positions normally requiring performance of service of more than 1,000 hours during a year. Effective July 1, 2008, members who have at least one (1) year of service in both PERF and TRF have the option of choosing from which of these funds they would like to retire.

As of June 30, 2016, there were 1,176 participating political subdivisions in addition to the State. As of June 30, 2016, PERF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	83,188
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	29,702
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	50,212
Active Members: Vested and Non-Vested	131,178
Total	<u>294,280</u>

Notes to the Financial Statements, continued June 30, 2016

Contributions

The State of Indiana is obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers. During the year ended June 30, 2016, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 11.19 percent was required from employers during the period of July 1 through December 31, 2015, and an average contribution rate of 11.2 percent was required for the period of January 1 through June 30, 2016. For the ASA Only Plan, all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance with IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.6 percent for the year ended June 30, 2016 and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member employed by the State for the PERF ASA Only Plan. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective 7/1/2014 the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

PERF Hybrid Plan

Plan Description

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Retirement Benefits – Defined Benefit Pension

The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

Notes to the Financial Statements, continued June 30, 2016

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2016; however, eligible members received a one-time check (a.k.a. 13th check) in September 2015. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2014, and who was entitled to receive a monthly benefit on July 1, 2015.

Disability and Survivor Benefits

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Notes to the Financial Statements, continued June 30, 2016

Retirement Benefits – Annuity Savings Account

Members are required to participate in an Annuity Savings Account (ASA). The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options, with varying degrees of risk and return potential:

- **Guaranteed Fund** – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- **Large Cap Equity Index Fund** – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- **Small/Mid Cap Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- **International Equity Fund** – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- **Fixed Income Fund** – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- **Inflation-Linked Fixed Income Fund** – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- **Target Date Funds** – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.
- **Money Market Fund** – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.

Members may direct changes to their investment fund allocations daily and investments are reported at fair market value.

ASA Only Plan

Plan Description

The PERF ASA Only Plan was established by the Indiana Legislature in 2011 with an effective date of March 1, 2013 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12, and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. PERF ASA Only Plan members are full-time employees of the State of Indiana (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013 were members of the PERF Hybrid Plan or (2) on or after March 1, 2013 do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the ASA Only Plan and must offer eligible employees the ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the ASA Only Plan as an option to their employees.

Retirement Account

The PERF ASA Only Plan maintains an annuity savings account for each member. Each member's account consists of two (2) subaccounts within the annuity savings account structure. There is a member contribution subaccount (which is the same as the annuity savings account in the PERF Hybrid Plan) and an employer contribution subaccount.

The member's contribution subaccount consists of the member's contributions, set by statute at three (3) percent of covered payroll as defined by IC 5-10.3-12-23 plus the interest/earnings or losses credited to the member's contribution subaccount. The State shall pay the member's contributions on behalf of the member. The employer contribution subaccount consists of the employer's contributions and the earnings on the employer's contributions. The employer contribution rate is set by INPRS Board of Trustees in accordance with IC 5-10.2-2-11.

The PERF ASA Only Plan allows members to actively participate in managing their retirement benefits through self-directed investment options. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. The members can direct their investments among the following aforementioned eight (8) investment options: Large Cap Equity Index Fund, Small/Mid Cap Equity Fund, International Equity Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Stable Value Fund, and Target Date Funds. A description of each of these Funds is earlier in this note in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section, except for the Stable Value Fund:

- **Stable Value Fund** (available only to PERF ASA Only members) - This fund's objective is to provide a market rate of return consistent with the preservation of principal through a shorter maturity, high quality portfolio.

A member is immediately vested in the member contribution subaccount. In order to receive contributions and earnings from the employer contribution subaccount, a member must meet vesting requirements (full years of participation) to qualify for a distribution. The vesting schedule is as follows:

- One (1) year of participation = 20%
- Two (2) years of participation = 40%
- Three (3) years of participation = 60%
- Four (4) years of participation = 80%
- Five (5) years of participation = 100%

Notes to the Financial Statements, continued June 30, 2016

A member who terminates service with their employer is entitled to withdraw the total amount in the member contribution subaccount. In addition, the member is entitled to withdraw amounts in the employer contribution subaccount to the extent the member is vested in this account. The member must be separated from employment for at least 30 days before the member may take a withdrawal from the member's account. The amount available for withdrawal is the fair value of the participant's account on the processing date. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees as a monthly annuity provided through INPRS.

If a member becomes disabled while in active service, subject to the member providing proof of the member's qualification for social security disability benefits to the Board of Trustees, a member may withdraw the total amount in the member contribution subaccount. To the extent that the member is vested, the member may make a withdrawal from the member's employer subaccount. The withdrawal amount can be paid in a lump sum, a direct rollover to another eligible retirement plan, or a monthly annuity provided through INPRS if the member has attained normal retirement age and met other criteria established by the INPRS Board of Trustees.

If a member dies while in active service or after terminating service in a position covered by the Plan, but before withdrawing the member's account, all of the member's contribution subaccount, and to the extent that the member is vested, the employer contribution subaccount, will be paid to the beneficiary or beneficiaries designated by the member. The amount available for payment is the fair value of the participant's account. The beneficiary may elect to have the member's account paid as a lump sum, a direct rollover to another eligible retirement plan, or as a monthly annuity in accordance with the rules of the INPRS Board of Trustees. The monthly annuity is an option only on or after the beneficiary attains normal retirement age and meets other criteria established by the INPRS Board of Trustees. If a member dies in the line of duty while in active service, the designated beneficiary or beneficiaries or surviving spouse or dependents, are entitled to payment of the member's account as described above. In addition, if the member was not fully vested in the employer contribution subaccount, the account is deemed to be fully vested for purposes of withdrawal.

(B) Teachers' Retirement Funds

The Indiana State Teachers' Retirement Fund (TRF) was established by the Indiana General Assembly in 1921. In 1955, TRF was designed as a pay-as-you-go defined benefit retirement plan. In 1995, legislation was passed that closed the pay-as-you-go plan (renamed the TRF Pre-1996 Account) to newly hired members and created a new account (named the TRF 1996 Account) for all members hired after June 30, 1995. TRF is two (2) cost-sharing, multiple-employer defined benefit plans, TRF Pre-1996 Account and TRF 1996 Account. TRF is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.4, and IC 5-10.5.

Teachers' Retirement Fund Pre-1996 Account

Plan Description

The Indiana State Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996) is a pay-as-you-go cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators, regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees hired before July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date to June 30, 2005. There are two (2) aspects to the TRF Pre-1996 defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the State of Indiana. The second portion of the TRF Pre-1996 benefit structure is the annuity savings account that supplements the defined

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

Membership

Membership in TRF Pre-1996 is closed to new entrants. Legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees hired before July 1, 2011, are required to participate in TRF as a condition of employment. Generally, members hired prior to 1996 participate in the TRF Pre-1996 Account and members hired after 1996 participate in the TRF 1996 Account (IC 5-10.2-2-2; IC 5-10.4-4-1; IC 5-10.4-7-1; 35 IAC 14-4-16(a)).

As of June 30, 2016, the number of participating employers was 336 in addition to the State. The State of Indiana makes contributions as the sole nonemployer contributing entity. As of June 30, 2016, TRF Pre-1996 Account membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	52,575
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	3,119
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	394
Active Members: Vested and Non-Vested	14,327
Total	<u>70,415</u>

Contributions

State appropriations are made in accordance with IC 5-10.4-2-4 for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through State appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund as part of the assets of the TRF Pre-1996, which was established according to IC 5-10.4-2-5. As a nonemployer contributing entity, the State of Indiana contributed \$887.5 million in fiscal year 2016 to TRF Pre-1996. As part of the \$887.5 million contribution, the State pre-funded one-time checks (a.k.a. 13th check) of \$41.0 million in accordance with 2015 HEA 1001 for \$20.3 million and in accordance with 2016 HEA 1161 for \$20.7 million (which went into the Pension Stabilization Fund). Employers contributed \$5.0 million in fiscal year 2016.

TRF Pre-1996 Account members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

Teachers' Retirement Fund 1996 Account

Plan Description

The Indiana State Teachers' Retirement 1996 Account (TRF 1996) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators, regularly employed licensed teachers at certain State universities and other educational institutions, and certain INPRS employees (hired before July 1, 2011) hired after June 30, 1995. Members who were hired before July 1, 1995, were members of TRF Pre-1996. However, pursuant to the law in place prior to July 1, 2005, if a member of TRF Pre-1996 left employment and re-employed after June 30, 1995, the member and the liability were transferred to TRF 1996. There are two (2) aspects to the TRF 1996 defined benefit structure. The first portion is the monthly defined benefit pension

Notes to the Financial Statements, continued June 30, 2016

that is funded by the employer. The second portion of the TRF 1996 benefit structure is the annuity savings account that supplements the defined benefit at retirement and was described in the PERF Hybrid Plan Retirement Benefits – Annuity Savings Account section. Investment options are similar to the PERF Hybrid Plan.

Membership

Membership in TRF 1996 is required for all legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the State at State institutions, and certain INPRS employees. Additionally, faculty members and professional employees at Ball State University and Vincennes University have the option of selecting membership in the Fund or the alternate University Plan not administered by INPRS. Membership in TRF 1996 is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers prior to their employment with the Board, and teachers employed by special management teams as defined under IC 20-31 et Seq.

As of June 30, 2016, the number of participating employers was 361 in addition to the State. As of June 30, 2016, TRF 1996 Account membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	4,977
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	4,335
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	12,529
Active Members: Vested and Non-Vested	55,265
Total	<u>77,106</u>

Contributions

The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As the TRF 1996 Account is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During the year ended June 30, 2016, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF 1996 Account members contribute three (3) percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

TRF Pre-1996 Account and TRF 1996 Account Retirement Benefits

The TRF retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account as described earlier in this note above. Pension benefits (non ASA) vest after 10 years of creditable service. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity provided through INPRS, or leave the contributions invested with INPRS. Vested TRF members terminating service with an employer, who wait 30 days after termination, may withdraw their annuity savings account and will not forfeit creditable service or a future retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account after 30 days, but by doing so forfeit his/her creditable

Notes to the Financial Statements, continued June 30, 2016

service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average of the highest five (5) years of annual compensation in a covered position. For TRF members who take a leave of absence to serve as an elected official, the highest one (1) year of salary is used. In order for a salary year to be included as one of the five (5) years, the member must have received at least one-half (1/2) year of service credit for that year as stated in IC 5-10.4-4-2. The five (5) years do not have to be continuous. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

Monthly pension benefits for members in pay status may be increased as COLA. Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2016; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2015. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2014, and who was entitled to receive a monthly benefit on July 1, 2015.

TRF Pre-1996 Account and TRF 1996 Account Disability and Survivor Benefits

TRF also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits, may retire for the duration of the disability if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement.

Members are eligible for a classroom disability benefit once they have earned five (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and applies for classroom disability benefits within one (1) year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive \$125 per month plus \$5 for each additional year of service credit over five (5) years.

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired

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at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after March 31, 1990, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

(C) 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to all full-time police officers and firefighters who are hired (or rehired) after April 30, 1977. The 1977 Fund was established in 1977 and is governed by the INPRS Board of Trustees in accordance with IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

Membership

As of June 30, 2016, the number of participating employers totaled 165. As of June 30, 2016, the 1977 Fund membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	4,004
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	186
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	933
Active Members: Vested and Non-Vested	13,506
Total	<u>18,629</u>

Contributions

The funding policy for the 1977 Fund requires remittances of member and employer contributions based on percentages of the salary of a first class officer or firefighter rather than actual payroll. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 36-8-8-6. As the 1977 Fund is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During the year ended June 30, 2016, all participating employers were required to contribute 19.7 percent of the salary of a first class officer or firefighter.

The member contribution rate is established by statute IC 36-8-8-8 at six (6) percent of the salary of a first class officer or firefighter. Each fund member shall contribute during the period of the fund member's employment or for 32 years, whichever is shorter. The employer may pay all or a part of the contribution for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the fund member completes 20 years of active service. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing 20 years of service. The INPRS Board of Trustees shall return to the fund member in a lump sum the fund member's contributions plus interest as determined by the INPRS Board of Trustees in accordance with IC 36-8-8-8.

Retirement Benefits

A member vests after 20 years of service. If the member retires at or after the age of 52 with 20 years of service, the benefit is equal to 50 percent of the salary of a first class officer, as reported by the employer in the year the 1977 Fund member ended service plus one (1) percent of that salary for each six (6) months of active service over 20 years to a maximum of 12

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years. At age 50 and with 20 years of service, a member may elect to receive a reduced benefit by a factor established by the fund's actuary (IC 36-8-8-11).

The monthly pension benefits for members in pay status may be increased annually in accordance with the cost of living adjustment (COLA) statute (IC 36-8-8-15). A member is entitled to an annual increase in the member's benefit based on the percentage increase in the Consumer Price Index (January-March); however, the maximum increase is 3.0 percent. There was no COLA increase effective July 1, 2015.

Disability and Survivor Benefits

The 1977 Fund also provides disability and survivor benefits. An active member may file an application for disability benefits. A determination is then made by the local pension board, and reviewed by the INPRS Board of Trustees, as to whether the member has a covered impairment and whether the impairment was incurred in the line of duty or not. The calculation for disability benefits is based on when the member was first hired, the type of impairment and other factors. In addition, the heirs or estate of a fund member may be entitled to receive \$12,000 upon the member's death.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and child(ren) to receive a portion of the benefits. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent of the member's monthly benefit during the spouse's lifetime. Each of the member's surviving child(ren) is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18, or age 23, if a full-time student. If there is no eligible surviving spouse or child(ren), a dependent parent(s) may receive 50 percent of the member's monthly benefit during their lifetime.

Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP) for the 1977 Fund was established by the Indiana Legislature in 2002 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 36-8-8.5. Members of the 1977 Fund that are eligible to retire may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the fund until that date. The DROP retirement date must be not less than twelve (12) months and not more than thirty-six (36) months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2016, the amount held by the plan pursuant to the DROP is \$66.6 million.

(D) Judges' Retirement System

Plan Description

The Judges' Retirement System (JRS) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to judges and magistrates. JRS was established in 1985, and is governed through the INPRS Board of Trustees by IC 33-38-6, IC 33-38-7 (judges beginning service before September 1, 1985) and IC 33-38-8 (judges beginning service after August 31, 1985). Coverage is for any person who has served, is serving, or shall serve, as a regular judge, magistrate or justice of the (1) Supreme Court of the State of Indiana, (2) Court of Appeals, (3) Indiana Tax Court, (4) Circuit Court of a Judicial Circuit, or (5) county courts including: Superior, Criminal, Probate, Juvenile, Municipal and County.

Indiana Public Retirement System

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Membership

The Judges' Retirement System consists of two classes of members (the 1977 System and the 1985 System). The 1977 System includes all individuals who began service as a judge before September 1, 1985, unless the individual, within twenty days after becoming a judge, filed an irrevocable election not to participate in the 1977 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. Beginning January 1, 2011, full-time magistrates who were serving on July 1, 2010, may elect to be members of the 1985 System. The 1985 System is for all new judges, and beginning January 1, 2011, all new full-time magistrates (IC 33-38-8-10).

As of June 30, 2016, the Judges' Retirement System membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	351
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	65
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	41
Active Members: Vested and Non-Vested	394
Total	<u>851</u>

Contributions

The funding policy for the Judges' Retirement System is in accordance with statute IC 33-38-6-17 that requires an appropriation by the Indiana General Assembly, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to the Judges' Retirement System computed on an actuarially funded basis and the recommendation of the actuary. The statute also provides for remittance of docket fees and court fees which are considered employer contributions. For the year ended June 30, 2016, the State of Indiana paid \$16.9 million in employer contributions.

The member contribution rate is established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 System) at six (6) percent of salary. Each fund member shall contribute during the period of the fund member's employment, or for 22 years, whichever is shorter. The employer may pay all or a part of the contributions for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before being eligible for a retirement benefit. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-38-7-13 (1977 System) and IC 33-38-8-12 (1985 System).

Retirement Benefits

A member vests after eight (8) years of creditable service. Judges who retire at or after age 65 with eight (8) years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with the statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. Applicable salary for participants in the 1985 Judges' System is defined in IC 33-38-8-14(e). The pension benefit for participants of the 1977 Judges' System is based on the salary being paid for the office that the participant held at the time of separation from service [IC 33-38-7-11(d)]. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the benefit the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

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A member may retire at age 62 with the requisite years of service, however the participant's benefit is reduced by 0.1 percent for each month the member's age on the date the participant begins receiving a retirement benefit precedes the participant's 65th birthday.

The monthly pension benefits of the retired judges that were former participants in the 1977 System receive benefit increases whenever the salary of the position the retiree held at separation from service increases. Before fiscal year 2011, benefits of judges who are members of the 1985 System were tied to the salary of the position at the time the participant separated from service and did not increase if the salary of the position increased after the participant separated from service. Before fiscal year 2011, the General Assembly provided COLA increases to participants in the 1985 System on an "ad hoc" basis. Beginning after June 30, 2010, a participant in the 1985 System receives an increase in the monthly benefit of the same percentage by which the salary of the office of the participant held at separation from service increases. The percentage increase to the monthly benefit takes effect at the same time the salary increase takes effect (IC 33-38-8-25). There was a COLA increase of 2.2% for the year ended June 30, 2016 for eligible participants in the 1977 System and 1985 System.

Disability and Survivor Benefits

There is no vesting requirement for permanent disability benefits. For both the 1977 System and the 1985 System, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two (2) licensed and practicing physicians appointed by the INPRS Board of Trustees. A participant receiving disability benefits must be reexamined at least once a year by at least two (2) physicians appointed by the INPRS Board of Trustees.

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight (8) years of service and was in service as a judge. The minimum survivor benefit is \$12,000.

(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

Plan Description

The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and Tobacco Commission and (3) any Indiana State excise police officer, Indiana State conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties. The EG&C Plan was established in 1972 and is governed by the INPRS Board of Trustees in accordance with IC 5-10-5.5.

Membership

As of June 30, 2016, the EG&C Plan membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	220
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	7
Inactive Non-Vested Members Entitled To a Distribution of Contributions	121
Active Members: Vested and Non-Vested	421
Total	<u>769</u>

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Contributions

The funding policy for the EG&C Plan is in accordance with statute IC 5-10-5.5-8.5. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During the year ended June 30, 2016, the State of Indiana was required to contribute 20.75 percent of covered payroll.

The member contribution rate is established by statute IC 5-10-5.5-8 at four (4) percent of a participant's salary to be contributed to the participant's savings account. The employer may pay all or a part of the contribution for the participant. Member contributions are used to fund a portion of the defined benefit payment. Any participant who terminates employment before accumulating 15 years of creditable service and before attaining the age of 45 shall be entitled to a lump sum refund of all contributions in the participant's savings account plus accumulated interest as determined by the INPRS Board of Trustees in accordance with IC 5-10-5.5-17.

Retirement Benefits

Generally, pension benefits vest after 15 years of creditable service. Officers becoming participants after age 50 are vested after completion of 10 years of service. A participant is entitled to an annual pension benefit, paid in equal monthly installments beginning on the participant's normal retirement date, equal to 25 percent of the participant's average annual salary. A participant who completes more than 10 years of creditable service is entitled to receive an additional amount equal to 1.67 percent of the participant's average annual salary for each completed year of creditable service over 10 years. However, a participant's annual pension benefit may not exceed 75 percent of the participant's average annual salary.

Each participant is required to retire on or before the first day of the month following the participant's 65th birthday. However, a participant who is hired after age 50 must retire upon the earlier of: (1) the first day of the month following the participant's 65th birthday; or (2) the first day of the month following the date the participant completes 15 years of creditable service. A participant, who is at least 55 years of age and the sum of the participant's years of creditable service and age in years, equals at least 85, may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with at least 15 years of creditable service. The monthly benefit is reduced by 0.25 percent for each full month by which the participant's early retirement date precedes the participant's 60th birthday.

Any participant who terminates service before accumulating 15 years of creditable service may become a member of the Public Employees' Retirement Fund (PERF). Upon payment of contributions and interest required by the INPRS Board of Trustees, the withdrawing participant shall be entitled to transfer creditable service to PERF.

The monthly pension benefits for members in pay status may be increased periodically as COLA. Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2016; however, eligible members did receive a one-time check (a.k.a. 13th check) in September 2015. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2014, and who was entitled to receive a monthly benefit on July 1, 2015.

Disability and Survivor Benefits

A participant who becomes permanently or temporarily disabled from performing all suitable and available work "on the force" for which the participant is or may be capable of becoming qualified, considering reasonable accommodation to the extent required by the Americans and Disability Act, is entitled to receive a disability benefit. The amount of the disability benefit paid

Notes to the Financial Statements, continued June 30, 2016

to a participant depends on whether the disability arose in the line of duty, the degree of impairment as determined by INPRS Board of Trustees' medical authority, and the participant's monthly salary. A participant is entitled to receive creditable service for the time the participant receives disability benefits under a State disability plan established under IC 5-10-8-7.

If a participant has more than 15 years of creditable service at the time of death, survivor benefits are payable to the surviving spouse, parents, or dependent children, as nominated by the participant's written direction, acknowledged, and filed with the INPRS Board of Trustees. The surviving spouse or the parent(s) is entitled to an annual survivor's allowance for life equal to 50 percent of the amount the participant would have been entitled to if he/she had retired on the date of death. If nominated and eligible, surviving unmarried minor child(ren) are entitled to an annual survivor's allowance equal to 50 percent of the amount the participant would have been entitled to if he/she had retired, divided equally between or among all nominated and eligible children. This benefit will continue until the child reaches 18 years of age or marries, whichever occurs first.

Deferred Retirement Option Plan

The DROP for the EG&C Plan was established by the Indiana Legislature in 2008 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10-5.5-22. Members of the EG&C Plan that are eligible to retire at an unreduced annual retirement allowance, may elect to accumulate a DROP benefit while continuing to work. At the time of their election, the member executes an irrevocable election to retire on a DROP retirement date and remains in active service contributing to the plan until that date. The DROP retirement date must be not less than twelve (12) months and not more than thirty-six (36) months after their DROP entry date, and not after the date they reach any mandatory retirement age that may apply. The member may make an election to enter the DROP only once in their lifetime. The DROP and future retirement monthly benefit is calculated as of the member's DROP entry date. At the time of retirement, the member must choose among the available options for distribution of the accumulated benefit under the DROP. As of June 30, 2016, the amount held by the plan pursuant to the DROP is \$1.9 million.

(F) Prosecuting Attorneys' Retirement Fund

Plan Description

The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer (the State of Indiana) defined benefit plan established to provide retirement, disability, and survivor benefits to prosecuting attorneys. PARF was established in 1989 and is governed through the INPRS Board of Trustees by IC 33-39-7. Coverage is for individuals who: (1) serve as a prosecuting attorney or a chief deputy prosecuting attorney; or (2) serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a State-paid deputy prosecuting attorney. These individuals' salaries are paid from the General Fund of the State of Indiana.

Membership

As of June 30, 2016, the PARF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	133
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	99
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	153
Active Members: Vested and Non-Vested	197
Total	<u>582</u>

Notes to the Financial Statements, continued June 30, 2016

Contributions

The funding policy for PARF is in accordance with statute IC 33-39-7-23 that requires an appropriation, determined by the INPRS Board of Trustees from the State of Indiana General Fund, for each biennium to PARF computed on an actuarially funded basis and the recommendation of the actuary. For the year ended June 30, 2016, the State of Indiana appropriated \$1.4 million for employer contributions.

The member contribution rate is established by statute IC 33-39-7-12 at six (6) percent of salary for their first 22 years of service. The employer may elect to pay the contributions for a member. Members receive interest earnings at a rate specified by the INPRS Board of Trustees in accordance with IC 33-39-7-14. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the member completes eight (8) years of creditable service. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest as determined by the INPRS Board of Trustees in accordance with IC 33-39-7-13.

Retirement Benefits

A participant is entitled to a retirement benefit if the participant: (1) is at least age 62 and has at least eight (8) years of service credit; (2) is at least age 55 and whose years of service as a member of PARF plus years of age equal at least 85; and (3) is not receiving salary for services currently performed. A member whose service ended prior to July 1, 2006 must have at least ten (10) years of service. The retirement benefit of a participant who is at least age 65 (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) is calculated by multiplying: (1) the highest annual salary paid to the participant before the participant's separation from service; by (2) a percentage based on the participant's years of service. The percentages range from 24 percent for eight (8) years of service to 60 percent for 22 or more years of service. If a participant is at least 62 years of age with at least eight (8) years of creditable service, a participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent per month for each month the participant retires prior to age 65.

In addition, a PARF participant is a member of PERF. A PARF participant's retirement benefit is reduced by the amount of the employer-financed pension benefit that would be payable to the participant had the participant retired from PERF on the date of the participant's retirement from the fund. However, the benefits payable to a participant from the fund are not reduced by any payments made to the participant from the participant's PERF annuity savings account. The employer may elect to make the contributions on behalf of the member.

Disability and Survivor Benefits

PARF also provides disability and survivor benefits. A participant who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for 5 to 10 years of service to 50 percent for 20 or more years of service. These benefits are reduced by any benefits payable to the participant from PERF.

The surviving spouse or designated beneficiary of a participant is entitled to a benefit if, on the date of the participant's death, the participant: (1) was receiving benefits; (2) has completed at least eight (8) years of service and was in service as a prosecuting attorney or chief deputy prosecuting attorney, executive director or assistant executive director of the Indiana Prosecuting Attorneys Council, or as a State-paid deputy prosecuting attorney; or (3) had met the requirements for a disability benefit.

Notes to the Financial Statements, continued June 30, 2016

Regardless of the participant's age at death, the surviving spouse's benefit is equal to the greater of: (1) \$7,000 annually; or (2) 50 percent of the amount of retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death. Survivor benefits are not subject to reduction for early retirement. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

(G) Legislators' Retirement System

Plan Description

The Legislators' Retirement System was established in 1989 by IC 2-3.5 and accordingly is governed by the INPRS Board of Trustees. The retirement system is for certain members of the General Assembly of the State of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two (2) separate and distinct plans. The Legislators' Defined Benefit Plan (LEDB Plan) (IC 2-3.5-4), a single-employer (the State of Indiana) defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LEDC Plan) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 30, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

Membership

As of June 30, 2016, the Legislators' Retirement System membership consisted of:

	Defined Benefit Plan	Defined Contribution Plan
Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	74	-
Inactive Vested Members Entitled To But Not Yet Receiving Benefits	12	-
Inactive Non-Vested Members Entitled To a Distribution of ASA Balance	-	66
Active Members: Vested and Non-Vested	11	150
Total	97	216

A member of the LEDB Plan, under certain circumstances, may also be a member of the LEDC Plan.

Legislators' Defined Benefit Plan

The LEDB Plan provides retirement, disability and survivor benefits. The LEDB Plan is closed to new entrants, as members of the General Assembly who began service after April 30, 1989, are not members of this plan.

Contributions

For the LEDB Plan, the funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the State of Indiana General Fund for each biennium. For the year ended June 30, 2016, the State of Indiana appropriated \$0.1 million for employer contributions.

Notes to the Financial Statements, continued June 30, 2016

Retirement Benefits

A participant is entitled to an unreduced monthly retirement benefit if the participant is: (1) at least age 65 and has at least 10 years of service as a member of the General Assembly; (2) at least age 55 and whose years of service as a member of the General Assembly plus years of age equal at least 85; or (3) at least age 60 and has at least 15 years of service as a member of the General Assembly. To qualify for a monthly retirement benefit, the member: (1) must have terminated service as a member of the General Assembly; (2) has at least 10 years of service as a member of the General Assembly; and (3) is not receiving and is not entitled to receive a salary from the State.

The monthly retirement benefit is equal to the lesser of: (1) \$40 multiplied by the number of years of service in the General Assembly completed before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the General Assembly, has at least 10 years of service as a member of the General Assembly, and is not receiving, nor is entitled to receive, a salary from the State of Indiana, is eligible for early retirement with a reduced benefit. The reduction in the benefit is equal to: (1) 0.1 percent a month between ages 60 and 65; and (2) 5/12 percent a month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as COLA. COLA increases for the LEDB Plan are equal to the increase for the PERF Plan in accordance with IC 2-3.5-4-13 on an "ad hoc" basis and are generally based on date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2016.

The LEDB Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or that the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

Legislators' Defined Contribution Plan

For the LEDC Plan, each participant is required to contribute five (5) percent of annual salary in accordance with statute IC 2-3.5-5-4. In addition, the State of Indiana is required by statute IC 2-3.5-5-5.5 to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. This rate, by statute, cannot exceed the total contribution rate paid that year by the State to PERF for State employees. The State contribution rate is the sum of: (1) the State's employer contribution rate for State employees, and (2) the rate the State pays on behalf of State employees to their annuity savings accounts (3.0 percent).

The contribution rate for calendar year 2015 was 14.2 percent and the rate for calendar year 2016 is 14.2 percent.

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are nine (9) investment options available to LEDC Plan members: Defined Benefit Unitized Assets, Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily and investments of the plan are reported at fair value.

Notes to the Financial Statements, continued June 30, 2016

A participant of the LEDC Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to the LEDC Plan. The amount available for withdrawal is the fair market value of the participant's account on the processing date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, a partial lump sum, a monthly annuity as purchased by the INPRS Board of Trustees, or a series of monthly installment payments over 60, 120, or 180 months as elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the LEDC Plan, the participant's account is to be paid to the beneficiary(ies) or to the survivor(s) if there is no properly designated beneficiary, or if no beneficiary survives the participant. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the processing date.

(H) Non-Retirement Plans

State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program, which is an Other Postemployment Benefit plan (OPEB). Under the program as of July 1, 2013, a death benefit of \$100,000 is to be paid in a lump sum to the surviving spouse, or if there is no surviving spouse, to the surviving child(ren) and stepchildren (to be shared equally) of a State of Indiana employee who dies in the line of duty as defined in the statute. The children and stepchildren must also be dependent on the State employee who died in the line of duty.

The law provides that "the State may provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." It was determined that a program of self-insurance would be established, and effective with the State's pay period ended October 23, 1993, the State assessed State agencies 0.1 percent of gross pay to fund this program. Due to the size of the fund and the infrequency of payments, collection of the assessment was ceased in November 1999. The measurement of potential liability and the related disclosures required for other postemployment benefit plans, have been excluded as they would not be material to the INPRS system.

Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Public Safety Officers' Special Death Benefit Fund, which is an Other Postemployment Benefit plan (OPEB). The fund was established for the purpose of paying a lump sum death benefit of \$150,000 to the surviving spouse or child(ren) of a public safety officer (as defined by IC 5-10-10-4) or other eligible officers (as defined by IC 5-10-10-4.5) who die in the line of duty. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares. The fund consists of bail bond fees remitted under IC 35-33-8-3.2, payments under IC 5-10-10-4.5, and investment earnings of the fund. The measurement of potential liability and the related disclosures required for other postemployment benefit plans, have been excluded as they would not be material to the INPRS system.

Pension Relief Fund

The Pension Relief Fund (PR Fund) was created by the Indiana General Assembly in 1980 (IC 5-10.3-11) and is an Agency fund. The purpose of the PR Fund is to give financial relief to pension funds maintained by units of local government for their police officers' and firefighters' retirement plan benefits.

Funding for the PR Fund is derived from contributions from the State of Indiana from a portion of cigarette and alcohol taxes, a portion of the State's lottery proceeds, investment income earned, and appropriations from the General Assembly.

Notes to the Financial Statements, continued June 30, 2016

Distributions are made from the PR Fund to units of local government in two equal installments before July 1 and before October 2 of each year. Effective January 1, 2009, the distribution is determined by an estimate of the total amount of pension, disability and survivors benefits from the 1925 Police Pension Fund (IC 36-8-6), the 1937 Firefighters' Pension Fund (IC 36-8-7), and the 1953 Police Pension Fund (IC 36-8-7.5). The estimate is prepared by the actuary on a city-by-city basis, and on a departmental basis.

As defined by IC 36-8-8-20, the PR Fund also pays a lump sum line of duty death benefit of \$150,000. As defined by IC 36-8-8-14.1, the benefit is paid to the following relative(s) of a fund member who dies in the line of duty: (1) to the surviving spouse; (2) if there is no surviving spouse, to the surviving child(ren) (to be shared equally); (3) if there is no surviving spouse or child(ren), to the parent(s) in equal shares.

In accordance with IC 5-10.3-11-6, separate accounts are maintained by INPRS for each unit of local government for amounts that have not been distributed to the local units. These amounts remain invested in the fund and are available to the units of local government at their request. As of June 30, 2016, units of local government had investments with a market value of approximately \$1.7 million on deposit in the PR Fund.

Note 2. Summary of Significant Accounting Policies

(A) Reporting Entity

Established July 1, 2011, the Indiana Public Retirement System and the governing board of trustees merged the administration of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). INPRS is an independent body corporate and politic and is not a department or agency of the State, but is an independent instrumentality exercising essential government functions (Public Law 23-2011). For these reasons, INPRS is a pension trust fund of the State of Indiana for financial statement reporting purposes.

The financial statements presented in this report represent only those funds for which the INPRS Board of Trustees has responsibility and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State.

The INPRS Board of Trustees administers nine (9) pension trust funds [eight (8) Defined Benefit plans and one (1) Defined Contribution plan], two (2) death benefit funds accounted for as other postemployment benefit funds, and an agency fund. These fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

The following funds are included in the financial statements:

- Public Employees' Retirement Fund (PERF)
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
- Teachers' Retirement Fund 1996 Account (TRF 1996)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement System (JRS)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Legislators' Defined Benefit Plan (LEDB Plan)
- Legislators' Defined Contribution Plan (LEDC Plan)
- State Employees' (SE) Death Benefit Fund
- Public Safety Officers' (PSO) Special Death Benefit Fund
- Pension Relief Fund (PR Fund)

See Note 1 for descriptions of these funds.

(B) Basis of Accounting

The financial statements of INPRS have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations.

(C) Use of Estimates

In preparing the financial statements to conform to generally accepted accounting principles, the Board makes estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

(D) Reclassifications

The financial statements include summarized comparative totals from the prior fiscal year, but do not include all comparative disclosures to constitute comparative financial reporting. There were no reclassifications made within the fiscal year 2015 financial statements to conform to the classifications for fiscal year 2016.

(E) Contributions Receivable

Contributions are recognized as revenues when earned, pursuant to legal requirements. Member and employer contributions are earned on the employers' payroll date. The estimate for contributions receivable at year-end was calculated utilizing member and employer contributions from the last reported payroll period. Contributions receivable and revenue pursuant to service purchase credits are recognized in full in the year when service purchase contract is signed. Contributions receivable and revenue related to certain employers for the unfunded actuarial liability existing at the time the employer made an election to limit participation in their pension plan are recognized.

In addition to actuarially determined contractual contributions, one employer also makes quarterly installment payments, including interest at 7.25 percent per year, for the cost of service credits granted retroactively when the employer resolved to enlarge participation in the Public Employees' Retirement Fund. As of June 30, 2016, the outstanding balance was \$1.0 million. This agreement was entered into effective July 1, 2000, to be amortized over forty (40) years.

(F) Deposit and Investment Policies and Provisions

Oversight of INPRS' assets is the responsibility of the INPRS Board of Trustees. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards.

At June 30, 2016, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement is adopted by the INPRS Board of Trustees. This includes target asset allocations and allowable ranges that are expected to meet rates of return over a period of time, while minimizing risk. See Note 3 for more information.

During fiscal year 2015, INPRS conducted an asset liability study. Based on the results of this study, the Board approved an asset allocation, which incorporated only slight changes to the prior asset allocation targets for fiscal year 2016.

Investment purchases and sales of securities are recorded as of their trade date.

(G) Method Used to Value Investments

The pooled and non-pooled investments are generally reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are generally reported using cost-based measures, which approximates fair value.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and security pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business. Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ significantly from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

(H) Pooled Investment Unit Trust Accounting

Pooled unit trust accounting involves assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The per-unit net asset value of all participating funds will increase or (decrease) based on investment earnings or (losses) and appreciation or (depreciation). Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a daily basis.

In accordance with GASB, the assets and liabilities for internal investment pools are allocated pro rata to each of the funds within the pool. This includes investment receivables, foreign exchange contract receivables, interest and dividend receivables, securities lending collateral, investment payables, foreign exchange contract payables, securities lending obligations, obligations under reverse repurchase agreements and the pooled investment holdings.

The INPRS Board of Trustees approved unitizing investment assets in order to provide for a consolidated rate of return and to invest in a diversified manner.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

The INPRS Board of Trustees unitized, into a consolidated pool, the defined benefit assets of the following retirement funds and pension systems known collectively as the Consolidated Defined Benefit Assets:

- Public Employees' Retirement Fund (PERF)
- Teachers' Retirement Fund Pre-1996 Account (TRF Pre-1996)
- Teachers' Retirement Fund 1996 Account (TRF 1996)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement System (JRS)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C Plan)
- Prosecuting Attorneys' Retirement Fund (PARF)
- Legislators' Defined Benefit Plan (LEDB Plan)

The INPRS Board of Trustees also unitized the ASA investment assets of PERF, TRF Pre-1996 and TRF 1996 and the defined contribution assets of Legislators' Defined Contribution Plan (LEDC) into two asset pools.

The first pool is comprised of the PERF, TRF Pre-1996, and TRF 1996 assets in the Guaranteed Fund, also known as the ASA Guaranteed Fund Assets. The second pool is comprised of all other ASA assets and the LEDC defined contribution assets.

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are pooled into the Death Benefit Unit Trust.

A summary of the pooled unit trust investments held by unitized value and fund is as follows:

(dollars in thousands)

Trust Fund	Consolidated Defined Benefit Assets	ASA Guaranteed Fund Assets	All Other ASA/Defined Contribution Assets ¹	Death Benefit Funds	Pooled Unit Trust Investments
Public Employees' Retirement Fund	\$ 11,198,649	\$ 1,615,507	\$ 997,558	\$ -	\$ 13,811,714
Teachers' Retirement Fund Pre-1996 Account	3,609,358	635,242	642,261	-	4,886,861
Teachers' Retirement Fund 1996 Account	4,399,829	623,460	594,319		5,617,608
1977 Police Officers' and Firefighters' Pension and Disability Fund	4,950,021	-	-	-	4,950,021
Judges' Retirement System	441,725	-	-	-	441,725
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	111,298				111,298
Prosecuting Attorneys' Retirement Plan	52,788	-	-	-	52,788
Legislators' Defined Benefit Plan	2,922	-	-	-	2,922
Legislators' Defined Contribution Plan ²	8,961	-	19,035	-	27,996
State Employees' Death Benefit Fund	-	-	-	8,347	8,347
Public Safety Officers' Special Death Benefit Fund	-	-	-	6,245	6,245
Total INPRS Unitized Investments	\$ 24,775,551	\$ 2,874,209	\$ 2,253,173	\$ 14,592	\$ 29,917,525

¹All other ASA/Defined Contribution Assets consist of PERF, TRF Pre-1996 and TRF 1996 ASA assets which are not invested into the Guaranteed Fund plus other LEDC defined contributions that are not invested into the Consolidated Defined Benefit Assets.

²The LEDC Plan allows members to invest in the Consolidated Defined Benefit Assets.

(I) Investments and Foreign Exchange Contracts Receivable and Investments and Foreign Exchange Contracts Payable

Investments and foreign exchange contracts receivable in addition to investments and foreign exchange contracts payable, consist primarily of receivables or payables for securities purchased or sold, but not settled as of June 30, 2016.

See Note 4 for additional information related to foreign exchange contract receivables and payables.

(J) Capital Assets

Capital assets, fixed and intangible are capitalized at historical cost when total cost is \$25 thousand or more. The cost of items like normal maintenance, repairs, and software license agreements that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of assets exceeding one (1) year. Depreciation and amortization are recognized as administrative expenses.

A summary of net capital asset values compared to the prior fiscal year is as follows:

(dollars in thousands)

Capital Assets	June 30, 2015	Additions	Disposals	June 30, 2016
Land	\$ 547	\$ -	\$ 547	\$ -
Depreciable Capital Assets:				
Building	2,893	-	2,893	-
Leasehold Improvements	-	382	-	382
Equipment	87	-	-	87
Software	15,634	-	-	15,634
Capital Assets in Progress	376	292	376	292
Total Depreciable Capital Assets	18,990	674	3,269	16,395
Less Accumulated Depreciation/Amortization:				
Building	1,584	17	1,601	-
Leasehold Improvements	-	38	-	38
Equipment	87	-	-	87
Software	10,840	2,013	-	12,853
Total Accumulated Depreciation	12,511	2,068	1,601	12,978
Total Net Depreciable Capital Assets	6,479	(1,394)	1,668	3,417
Total Net Capital Assets	\$ 7,026	\$ (1,394)	\$ 2,215	\$ 3,417

On August 13, 2015, the land and building at 143 W. Market Street, Indianapolis, Indiana was sold and INPRS personnel relocated to the INPRS offices at One North Capitol (1NC).

Costs to renovate 1NC to accommodate additional staff were recorded as leasehold improvements. Leasehold improvements are being depreciated over the term of the lease.

Notes to the Financial Statements, continued June 30, 2016

All capital equipment has been fully depreciated. No new equipment was capitalized during the current fiscal year.

Amortization of software is computed over five (5) years when assets are placed in service. Costs for purchase and development of computer software meeting minimum cost and service life estimates are capitalized as incurred. Software purchased during the current fiscal year was recorded as a capital asset in progress until it is placed in service.

(K) Benefits and Distributions

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Pension, disability and special death benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or automatically distributed by the fund when certain criteria are met.

(L) Due To/From Other Funds and Member Reassignments

Total due to/from other funds represents recurring transfers between funds for retirements and payments of shared administrative expenses as part of the agency's operations. Interfund balances are routinely funded.

When statute allows, member reassignments occur resulting in the transfer of member and employer reserves between funds due to a retiring member having service in multiple funds. Once a member selects the fund he/she wants to retire from, creditable service covered by the other fund and the related annuity savings account (ASA) balance will be transferred to the fund selected in calculating the member's retirement benefit.

When the member's retirement benefit is calculated, the fund selected establishes a receivable from the other fund for the ASA balance (member reserve) and the calculated employer reserve for the service credit transferred in from the other fund. The receivable is reflected in the receivable section in the Statement of Fiduciary Net Position. Conversely, the payable is reflected in the liabilities section of the Statement of Fiduciary Net Position.

(M) Due to Other Governments

Total due to other governments represents a liability account reflecting amounts owed by INPRS to another government (e.g., county or municipality). INPRS acts as an agent of the Pension Relief Fund.

(N) Compensated Absences

INPRS' full-time employees accumulate earned but unused vacation, sick pay, compensatory time, and personal time each pay period. Bonus vacation days are awarded upon completion of five (5), 10 and 20 years of employment with INPRS and/or the State of Indiana. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

Vacation, compensatory time and personal leave are reflected as part of the salaries and benefits payable line in the Liabilities section of the Statement of Fiduciary Net Position. No liability is calculated for unpaid accumulated sick leave since it is not probable that sick leave will be paid.

(O) Administrative, Project and Direct Investment Expenses

An annual budget for the administrative and direct investment expenses of INPRS is reviewed and approved by the INPRS Board of Trustees. These expenses are paid from plan assets and investment earnings.

The PERF plan pays the administrative and direct investment expenses of all the funds. At June 30, a receivable is recognized for the PERF plan and a payable is recognized for the other funds in the amount due to the PERF plan for the other funds' share of expenses. The receivable and payable are settled in the following fiscal period.

(P) Federal Income Tax Status

Plans administered by INPRS qualify under Section 401(a) of the Internal Revenue Code (IRC) and are exempt from federal income taxes under Section 501(a) of the IRC.

(Q) Reserves and Designations

The following are the legally required reserves.

Member Reserve – The member reserve represents the accumulated contributions made by or on behalf of the members plus/minus earnings/losses, less amounts distributed or transferred to the Benefits in Force reserve for retirement, disability, or other benefits. For the PERF and TRF plans, this reserve includes the members' annuity savings accounts.

Employer Reserve – This reserve consists of the accumulated contributions from employers plus/minus earnings/losses, less transfers made to the Benefits in Force reserve for the actuarial pension cost for retirement, disability, or other benefits.

Benefits in Force – The reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled and survivors of the members who died in service. The accumulated contributions of the PERF and TRF members who elect to annuitize their annuity savings accounts and the actuarial pension cost are transferred to the reserve upon retirement, disability, or death.

The following are the balances of the reserves as of June 30, 2016:

(dollars in thousands)

Pension Trust Funds	Member Reserve	Employer Reserve ¹	Benefits in Force	Total Reserves
PERF	\$ 2,667,710	\$ 4,933,201	\$ 6,269,591	\$ 13,870,502
TRF Pre-1996	1,265,128	-	3,522,401	4,787,529
TRF 1996	1,217,433	3,570,049	823,748	5,611,230
1977 Fund	844,297	2,827,716	1,278,986	4,950,999
JRS	34,828	216,378	190,584	441,790
EG&C Plan	9,085	46,460	55,784	111,329
PARF	26,206	2,662	23,924	52,792
LEDB Plan	N/A	66	2,853	2,919
LEDC Plan	28,410	N/A	N/A	28,410

¹The employer reserve includes \$2,596k of reserve monies for the unvested portion of the ASA Only Plan.

(R) New Accounting Pronouncements

GASB has issued Statement No. 72, *"Fair Value Measurement and Application."* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The requirements of this Statement are effective for financial reporting periods beginning after June 15, 2015. Management has evaluated GASB Statement No. 72 and has implemented its requirements in the financial statements as presented.

GASB has issued Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68."* This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *"Financial Reporting for Pension Plans"*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. If the pension is not within the scope of Statement 68, the requirements are effective for financial reporting periods beginning after June 15, 2016. All other pension plans are required to use an effective financial reporting period beginning after June 15, 2015. Management has evaluated GASB Statement No. 73 and has implemented its requirements in the financial statements as presented.

GASB has issued Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"* for which the principal objective of this statement is to improve the usefulness of information about postemployment benefits. It establishes financial reporting standards for state and local governmental other postemployment benefit (OPEB) plans that are administered through trusts or equivalent arrangements. The requirements of this Statement are effective for financial reporting periods beginning after June 15, 2016. Management is currently evaluating GASB Statement No. 74 and, if applicable, will implement in the appropriate period.

GASB has issued Statement No. 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"* for which the primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). The requirements of this Statement are effective for financial reporting periods beginning after June 15, 2017. Management is currently evaluating GASB Statement No. 75 and, if applicable, will implement in the appropriate period.

GASB has issued Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Government"* which establishes the hierarchy of generally accepted accounting principles (GAAP) for state and local governments and the framework for selecting those principles. The requirements of this Statement are effective for financial reporting periods beginning after June 15, 2015. Management has evaluated GASB Statement No. 76 and has implemented its requirements in the financial statements as presented.

GASB has issued Statement No. 77, *"Tax Abatement Disclosures"* which will establish financial reporting standards for tax abatement agreements entered into by state and local governments. The requirements of this Statement are effective for financial reporting periods beginning after December 15, 2015. Management is currently evaluating GASB Statement No. 77 and, if applicable, will implement in the appropriate period.

Notes to the Financial Statements, continued June 30, 2016

GASB has issued Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"* which establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets certain criteria. The requirements for this Statement are effective for financial reporting periods beginning after December 15, 2015. Management is currently evaluating GASB Statement No. 78 and, if applicable, will implement in the appropriate period.

GASB has issued Statement No. 79, *"Certain External Investment Pools and Pool Participants"* which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. The requirements for this Statement are effective for financial reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective reporting periods beginning after December 15, 2015. Management has evaluated GASB Statement No. 79 and determined the statement does not apply to INPRS' financial statements as presented.

GASB has issued Statement No. 80, *"Blending Requirements for Certain Component Units"* which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Management is currently evaluating GASB Statement No. 80 and, if applicable, will implement in the appropriate period.

GASB has issued Statement No. 81, *"Irrevocable Split-Interest Agreements"* which improves financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. Management is currently evaluating GASB Statement No. 81 and, if applicable, will implement in the appropriate period.

GASB has issued Statement No. 82, *"Pension Issues"* which is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to Statements No. 67, *"Financial Reporting for Pension Plans"*, No. 68, *"Accounting and Financial Reporting for Pensions"*, and No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68."* The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Management has evaluated GASB Statement No. 82 and has early adopted its requirements in the financial statements as presented.

Note 3. Cash and Investments

(A) Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, the Board of Trustees must “invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.” The Board of Trustees is also required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets of the plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to collectively achieve the investment objectives of the retirement funds. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted periodically.

The INPRS Board of Trustees adopted a new Investment Policy Statement effective October 23, 2015, and the new strategic asset allocation for the Consolidated Defined Benefit Assets is as follows:

Global Asset Classes	Target Allocation	Target Range
Public Equity	22.0 %	19.5 to 24.5%
Private Equity	10.0	7.0 to 13.0
Fixed Income – Ex Inflation-Linked	24.0	21.0 to 27.0
Fixed Income – Inflation-Linked	7.0	4.0 to 10.0
Commodities	8.0	6.0 to 10.0
Real Estate	7.0	3.5 to 10.5
Absolute Return	10.0	6.0 to 14.0
Risk Parity	12.0	7.0 to 17.0

The asset allocations shown above may differ for the PERF ASA, TRF Pre-1996 ASA, TRF 1996 ASA, and the LEDC plans, as these plan allocations are directed by the members.

The Pension Relief Fund (PR Fund) is invested 100 percent in high-quality, short-term money market instruments, including, but not limited to, high-quality commercial paper and securities issued or guaranteed by the U.S. government.

The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are 100 percent invested in a commingled fund, which invest in short-term and fixed income investments.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

(B) Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses is as follows:

Pension Trust Funds ¹	2016 Annual Money Weighted Rate of Return
Public Employees' Retirement Fund	1.11 %
Teachers' Retirement Fund Pre-1996 Account ²	1.01
Teachers' Retirement Fund 1996 Account ²	1.01
1977 Police Officers' and Firefighters' Pension and Disability Fund	1.22
Judges' Retirement System	1.18
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	1.17
Prosecuting Attorneys' Retirement Fund	1.10
Legislators' Defined Benefit Plan	0.84
Total INPRS³	1.10

¹Excludes the Legislators' Defined Contribution Plan

²The Teachers' Retirement Fund Accounts are combined for investment purposes

³Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund

(C) Cash in Bank and Deposits

Cash balances represent both operational demand deposit accounts held at the bank and, investment related cash and short-term investments, both pooled and non-pooled, on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in a short-term investment account, thus causing a possible negative book balance. Negative book balances are reflected in the liabilities section of the Statement of Fiduciary Net Position.

The table below presents the INPRS total cash deposits, which includes short-term investment funds as of June 30, 2016.

(dollars in thousands)

Cash Deposits	Total
Demand Deposit Account – Bank Balances (Insured by FDIC up to \$250 thousand per financial institution)	\$ 6,828
Held with Indiana Treasurer of State (Fully Insured)	497
Demand Deposit – Outstanding Check Float	(24,564)
Held with Custodian Bank (Uncollateralized)	167,000
Short Term Investment Funds held at Bank (Collateralized)	1,395,892
Total	\$ 1,545,653

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

(D) Summary of Investments Held

A summary of investments held as of June 30, 2016, exclusive of operational cash and the securities lending program which is fully disclosed in Section (I), is as follows:

(dollars in thousands)

Investment Type ¹	Fair Value	% of Total Investments
Short Term Investments²	\$ 51,521	0.2 %
Repurchase Agreements	6,433	-
Short Term²		
Cash at Brokers	167,000	0.5
Money Market Sweep Vehicle	1,344,371	4.4
Commercial Paper	15,494	0.1
U.S. Treasury Obligations	239,551	0.8
Non-U.S. Governments	7,106	-
Total Short Term Investments	1,773,522	5.8
Fixed Income		
U.S. Governments	3,870,320	12.7
Non-U.S. Governments	2,667,584	8.7
U.S. Agencies	811,012	2.7
Corporate Bonds	2,333,511	7.7
Asset-Backed Securities	651,824	2.1
Commingled Fixed Income Funds	878,060	2.9
Total Fixed Income Investments	11,212,311	36.8
Equity		
Domestic Equities	3,337,858	10.9
International Equities	2,763,596	9.1
Commingled Equity Funds	1,234,825	4.0
Total Equity Investments	7,336,279	24.0
Alternative Investments		
Private Equity	3,499,128	11.5
Absolute Return	2,299,874	7.5
Private Real Estate	1,577,811	5.2
Risk Parity	2,736,363	9.0
Total Alternative Investments	10,113,176	33.2
Derivatives	(964)	-
Total Investments	\$ 30,492,278	100.0 %

¹The amounts disclosed above will differ from the Asset Allocation Summary shown in the Investment Section. The investment type combines assets according to the security type assigned to each investment by the Custodian. The Asset Allocation Summary groups assets according to the investment objective of each investment manager.

²Short Term Investments include highly liquid assets, both non-pooled and pooled, that are an integral part of the pension investments.

(E) Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, INPRS will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department's agent, but not in INPRS' name.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. At June 30, 2016, there was \$173.83 million of cash on deposit which was uninsured and uncollateralized and therefore exposed to credit risk as disclosed in Section (C).

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5 for PERF and IC 5-10.4-3-14(a) and IC 5-10.4-3-13 for TRF, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires that the custodian segregate the securities on the custodian's books and records from the custodian's own property. In addition, any investment manager for INPRS is not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

(F) Interest Rate Risk

Interest rate risk is the risk changes in interest rates may adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer a fixed-income investment is to maturity, the more susceptible the value of the fixed-income investment is to market interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

As of June 30, 2016 debt security duration is as follows:

(dollars in thousands)

Debt Security Type	Carrying Value	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Short Term Investments			
Money Market Sweep Vehicle	\$ 1,371,328	10.5 %	0.01
Commercial Paper	15,494	0.1	0.04
U.S. Treasury Obligations	239,551	1.8	0.25
Corporate Bonds Less than 1 Year	7,106	0.1	0.71
Duration Not Available	191,564	1.5	N/A
Total Short Term Investments	1,825,043	14.0	
Fixed Income Investments			
U.S. Governments	3,870,320	29.7	10.08
Non-U.S. Government	2,662,813	20.4	7.56
U.S. Agencies	745,432	5.7	2.88
Corporate Bonds	2,072,139	15.9	5.95
Asset-Backed Securities	608,359	4.7	1.13
Duration Not Available	1,253,248	9.6	N/A
Total Fixed Income Investments	11,212,311	86.0	
Total Debt Securities	\$ 13,037,354	100.0 %	

The \$1.44 billion, for which no duration was available, is primarily made up of cash and commingled debt funds.

(G) Credit Risk

The credit risk of investments is the risk the issuer will default and will no longer meet their obligations. The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor which is monitored on an absolute and relative basis.

INPRS uses three primary rating investment services, Standard and Poor's, Moody's, and Fitch, ranked in priority order respectively.

(dollars in thousands)

Credit Rating	Short Term Investments	Fixed Income Securities	Total	% of All Debt Securities
AAA	\$ -	\$ 997,009	\$ 997,009	7.7 %
U.S. Government Guaranteed	-	4,681,332	4,681,332	36.4
AA	244,547	1,321,243	1,565,790	12.2
A	47	1,225,518	1,225,565	9.5
BBB	17,557	1,262,706	1,280,263	9.9
BB	-	285,150	285,150	2.2
B	-	187,745	187,745	1.5
Below B	-	213,433	213,433	1.7
Unrated	1,395,892	1,038,175	2,434,067	18.9
Total	\$ 1,658,043	\$ 11,212,311	\$ 12,870,354	100.0 %

The above table does not include cash with brokers of \$167.00 million.

The \$2.43 billion unrated primarily consists of the following security types: money market sweep vehicles, private placement, term loans and asset-backed securities, commercial mortgages, CMO/REMIC's and commingled debt funds.

Concentration of credit risk is the risk of loss which may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis. At June 30, 2016, single issuer exposure in the portfolio did not exceed 5 percent of either the total investments or the Fiduciary Net Position.

INPRS Investment Policy Statement has placed a limit on the concentration of assets placed with an investment manager.

- No investment manager will manage more than 10 percent of the INPRS assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager will be allowed to manage in excess of 15 percent of the system's assets in actively managed portfolios without Board approval.
- No investment manager will manage more than 15 percent of the INPRS assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager will be allowed to manage in excess of 20 percent of the system's assets in passively managed portfolios without Board approval.
- No investment manager will manage more than 25 percent of the INPRS assets in a combination of actively and passively managed portfolios.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

(H) Foreign Currency Risk

Foreign currency risk is the risk changes in exchange rates may adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international fixed income and equity holdings.

At June 30, 2016, INPRS did not have a currency hedging program at the total fund level. However, at the manager level, hedging currency risk is allowed and certain managers actively manage currency exposure. INPRS monitors currency risk at the total fund level, portfolio level, and asset class level.

INPRS exposure to foreign currency risk at June 30, 2016, is as follows:

(dollars in thousands)

Foreign Currency Held at June 30, 2016

Currency	Short Term	Fixed Income	Equity	Other Investments	Total	% of Total ¹
Argentina Peso	\$ 34	\$ 2,231	\$ -	\$ 6,013	\$ 8,278	- %
Australian Dollar	2	82,675	109,387	(82,751)	109,313	0.4
Brazilian Real	409	52,612	21,209	(19,186)	55,044	0.2
Canadian Dollar	523	120,199	145,677	(120,596)	145,803	0.5
Chilean Peso	-	-	-	(924)	(924)	-
Chinese R Yuan HK	-	-	-	(24,542)	(24,542)	(0.1)
China Yuan Renminbi	-	50	-	18,116	18,166	0.1
Colombian Peso	84	20,996	-	1,317	22,397	0.1
Czech Koruna	-	(8)	732	103	827	-
Danish Krone	670	18,138	49,250	(15,777)	52,281	0.2
Dominican Rep Peso	-	1,882	-	-	1,882	-
Egyptian Pound	-	-	700	-	700	-
Euro Currency Unit	6,852	1,094,910	522,993	(979,801)	644,954	2.2
Hong Kong Dollar	274	40	108,507	(15,532)	93,289	0.3
Hungarian Forint	238	(254)	3,415	14,110	17,509	0.1
Indian Rupee	636	32	28,672	(631)	28,709	0.1
Indonesian Rupiah	58	30,533	3,220	1,307	35,118	0.1
Israeli Shekel	64	-	5,825	(36)	5,853	-
Japanese Yen	7,183	346,375	415,768	(364,795)	404,531	1.4
Malaysian Ringgit	151	26,261	1,450	4,134	31,996	0.1
Mexican Peso	277	51,054	13,694	(5,082)	59,943	0.2
Taiwan New Dollar	361	-	59,928	(18,160)	42,129	0.1
Turkish Lira	3	18,669	13,003	7,867	39,542	0.1
New Zealand Dollar	115	6,404	9,051	(16,962)	(1,392)	-
Norwegian Krone	320	4,017	9,683	9,005	23,025	0.1
Peruvian Nuevo Sol	-	1,947	-	3,318	5,265	-
Philippines Peso	16	243	1,383	673	2,315	-
Polish Zloty	46	58,147	1,559	(26,618)	33,134	0.1
British Pound Sterling	3,714	485,366	332,478	(487,799)	333,759	1.1
Romania Leu	6	823	-	6,318	7,147	-
Russian Ruble	-	21,122	-	(7,960)	13,162	-
South African Rand	300	39,629	26,302	(14,426)	51,805	0.2
Singapore Dollar	205	4,867	19,694	(18,629)	6,137	-
South Korean Won	-	(147)	98,586	(8,521)	89,918	0.3
Swedish Krona	404	68,719	67,069	(64,835)	71,357	0.2
Swiss Franc	3,140	3,402	161,555	(4,168)	163,929	0.5
Thai Baht	222	15,540	10,006	(1,371)	24,397	0.1
UAE Dirham	-	-	2,049	(13,179)	(11,130)	-
Held in Foreign Currency	\$ 26,307	\$ 2,576,474	\$ 2,242,845	\$ (2,240,000)	\$ 2,605,626	8.7 %

¹Total of foreign currency risk, as a percentage of all investments.

Notes to the Financial Statements, continued June 30, 2016

The foreign currency exposure consists of unhedged assets within the investment portfolio. The short term investment, debt securities and equity securities include accruals. Other investments include foreign holdings of other investments, derivatives and receivables/payables.

(I) Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees' may authorize its custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires collateral pledged to be in excess of the total fair value of the loaned securities at all times.

The purpose of such a program is to provide additional revenue for the Consolidated Defined Benefits Assets. The INPRS Investment Policy Statement requires that collateral securities and/or cash be initially pledged at 102 percent of the fair value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the Consolidated Defined Benefit Assets may be lent in aggregate. The custodian bank and/or its securities lending sub-agents provide 100 percent indemnification of the Consolidated Defined Benefit Assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral by INPRS cannot be pledged or sold unless the borrower defaults.

At June 30, 2016, INPRS had no security lending credit risk exposure as the collateral value pledged exceeded the fair value of securities on loan, per the requirements stated above.

(dollars in thousands)

Security Type	Fair Value of Securities on Loan	Collateral Value (Securities and Cash)
U.S. Governments	\$ 420,356	\$ 445,910
Corporate Bonds	28,758	29,471
International Bonds	3,427	3,572
Domestic Equities	280,447	287,710
International Equities	74,678	82,939
Total	\$ 807,666	\$ 849,602

Cash collateral can be reinvested. The reinvested assets are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states all collateral investments will have a maturity of the next business day. INPRS retains the fair value risk with respect to the investment of the cash collateral. However, the custodian bank provides 100 percent indemnification to INPRS of all collateral invested in repurchase agreements against borrower default and overnight market risk.

All reinvested cash collateral investments consist of repurchase agreements which are not rated by any of the rating agencies.

(J) Repurchase Agreements

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker-dealer or financial institution transfers securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

An obligation under reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Obligations under reverse repurchase agreements are liabilities of INPRS' whereby security collateral is held at the broker dealer or financial institution's custodian bank.

Cash received and reinvested in securities is not required to match the maturities of the securities posted as collateral.

At June 30, 2016, INPRS did not have a repurchase agreement or an obligation under a reverse repurchase agreement program at the total fund level. However, at the manager level, repurchase agreements and obligations under reverse repurchase agreements are allowable investments.

The amounts held at June 30, 2016, exclusive of securities lending reinvested cash collateral, are as follows:

(dollars in thousands)

Repurchase Agreements by Collateral Type	Cash Collateral Received	Fair Value
U.S. Treasury	\$ 6,433	\$ 6,433
Obligations Under Reverse Repurchase Agreements by Collateral Type	Cash Collateral Posted	Fair Value
U.S. Treasury	\$ 268,075	\$ 271,139
Non U.S. Government	252	331
	<u>\$ 268,327</u>	<u>\$ 271,470</u>

At June 30, 2016, INPRS had no reverse repurchase agreement credit risk exposure since the cash collateral value posted was less than the fair value of the liability held.

(K) Fair Value Measurement

In accordance with GASB Statement No. 72, INPRS' investments are measured and generally reported at fair value and are classified according to the following hierarchy:

- **Level 1** – Investments reflect prices quoted in active markets for identical assets.
- **Level 2** – Investments reflect prices that are based on a similar observable asset either directly or indirectly in an active market, and inputs in markets that are not considered to be active for identical or similar assets.
- **Level 3** – Investments reflect prices based upon unobservable inputs.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Short term investment funds (STIF's) are classified at amortized cost if they have a share price equal to \$1.00. STIF's with a share price not equal to \$1.00 are included with commingled short term investments measured at the net asset value (NAV).

Equity and fixed income securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity and fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Corporate bonds classified in Level 3 are valued using discounted cash flow techniques. International equities classified in Level 3 are valued using a third party source.

Derivative instruments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Derivative instruments classified as Level 2 are valued using a market approach that considers benchmarks.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

At June 30, 2016, the fair value of investments categorized by Level 1, 2 and 3 is as follows:

(dollars in thousands)

(dollars in thousands)

Investment Type ¹	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments Measured at Amortized Cost</u>				
Short Term Investments ²	\$ 51,521			
Cash at Brokers	167,000			
Repurchase Agreements	6,433			
Pooled Short Term Investments ²	1,288,067			
Total Investments Measured at Amortized Cost	1,513,021			
<u>Investments by Fair Value Level</u>				
Pooled Short Term Investments ²				
BNY - Mellon Cash Reserves	34,521	\$ -	\$ 34,521	\$ -
Commercial Paper	15,494	-	15,494	-
U.S. Treasury Obligations	239,551	239,551	-	-
Non-U.S. Governments	7,106	-	7,106	-
Total Pooled Short Term Investments	296,672	239,551	57,121	-
Fixed Income Investments				
U.S. Governments	3,870,320	3,869,991	329	-
Non-U.S. Governments	2,667,584	-	2,667,584	-
U.S. Agencies	811,012	-	811,012	-
Corporate Bonds	2,333,511	-	2,332,561	950
Asset-Backed Securities	651,824	-	651,824	-
Total Fixed Income Investments	10,334,251	3,869,991	6,463,310	950
Equity Investments:				
Domestic Equities	3,337,858	3,329,904	7,954	-
International Equities	2,763,596	2,760,269	3,208	119
Total Equity Investments	6,101,454	6,090,173	11,162	119
Total Investments by Fair Value Level	16,732,377	10,199,715	6,531,593	1,069
<u>Investments Measured at the Net Asset Value (NAV)</u>				
Commingled Short Term	21,783			
Commingled Fixed Income	878,060			
Commingled Equity	1,234,825			
Private Equity	3,499,128			
Absolute Return	2,299,874			
Private Real Estate	1,577,811			
Risk Parity	2,736,363			
Total Investments Measured at the Net Asset Value (NAV)	12,247,844			
<u>Investment Derivatives</u>				
Total Futures	13,912	13,912	-	-
Total Options	100	-	100	-
Total Swaps	(14,976)	-	(14,976)	-
Total Investment Derivatives	(964)	\$ 13,912	\$ (14,876)	\$ -
Total Investments (less Securities Lending Collateral)	\$ 30,492,278			

¹The amounts disclosed above will differ from the Asset Allocation Summary shown in the Investment Section. The investment type combines assets according to the security type assigned to each investment by the Custodian. The Asset Allocation Summary groups assets according to the investment objective of each investment manager.

²Short Term Investments include highly liquid assets, both pooled and non-pooled that are an integral part of the pension investments.

Notes to the Financial Statements, continued June 30, 2016

The valuation method for investments measured at the net asset value (NAV) per share or equivalent, at June 30, 2016, is presented as follows:

(dollars in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled Short Term Funds	\$ 21,783	\$ -	Daily	1 day
Commingled Fixed Income Funds	878,060	-	Daily	1 day
Commingled Equity Funds	1,234,825	-	Daily	1 day
Private Equity	3,499,128	1,773,671	N/A	N/A
Real Estate Funds	1,577,811	538,273	Quarterly	30-90 days
Absolute Return	2,299,874	-	Monthly, Quarterly, Semi-Annually	30-120 days
Risk Parity	2,736,363	-	Daily, Weekly, Monthly	3-5 days
Total	<u>\$ 12,247,844</u>	<u>\$ 2,311,944</u>		

Commingled Short Term, Fixed Income and Equity Funds - There are three short term funds, twenty-one fixed income funds and three equity funds, which are considered to be commingled in nature. These investments are valued at the net asset value of the units held at June 30, 2016, based upon fair value of the underlying securities.

Private Equity - Consisting of 269 private equity funds, this strategy invests across a range of strategies, geographies, and industries. These underlying portfolio company investments cannot be redeemed with the funds, but rather the funds will make distributions of capital to INPRS as the funds sell the underlying portfolio company investments.

Real Estate Funds - Consisting of twenty-nine private real estate funds, this strategy invests primarily in U.S. commercial real estate. There are twenty-three private real estate funds that have been classified as illiquid where these investments can never be redeemed with those real estate funds. Distributions of capital from illiquid private real estate funds will be received as the underlying real estate assets are liquidated over the average ten year life of the fund. There are six real estate funds that have been classified as liquid real estate funds by nature of the open-end structure of the fund. Open-end funds generally offer periodic distributions of net cash flow, which investors can elect to reinvest, as well as quarterly redemption windows. Illiquid funds represent approximately 40 percent of the value of the real estate fund investments.

Absolute Return - The absolute return strategies portfolio attempts to generate returns in excess of the plan's target actuarial rate of return over a full market cycle with minimal beta to the plan's primary long-only market exposures (equities, credit, rates, and commodities). Given that mandate, the portfolio tends to rely less heavily on traditional long/short equity and event-driven strategies, but instead focuses on relative value/arbitrage and tactical trading strategies. The portfolio consists of 26 fund holdings that cover a broad spectrum of investment strategies and investment horizons, which results in distinct fund redemption terms to prevent asset-liability mismatches. Fund redemption periods range from weeks (alternative beta) to years (drawdown vehicles), but as a whole, on a weighted-average basis, the portfolio maintains a liquidity profile of less than one year. Most of the funds' investments are classified as fair value level 1 and 2 assets, which allow for 100 percent independent verification of NAVs/fair values by the funds' administrators. For the drawdown strategies, which are 19 percent of the Absolute Return portfolio (the majority consists of level 3 assets), the valuation processes are comparable to private equity valuations, with quarterly valuations as discussed in the following paragraph.

Risk Parity - Consisting of three fund investments, this portfolio is constructed to accrue various asset class risk premiums, including equity, without long-term dominance from any single asset class. The structure of these investments provides a reasonable level of liquidity and investments may be redeemed in accordance to the terms set forth by each investment management agreement. The risk parity funds transact in what are presently considered to be liquid, market-priced instruments, and 100 percent of the NAV is independently calculated by the fund administrators. Fair values are reported as NAV per share.

As of June 30, 2016, it is probable \$3.50 billion and \$1.58 billion of the investments in the private equity and real estate funds type, respectively, will be sold at an amount different from the NAV of the INPRS' ownership interest in partners' capital. Therefore, the fair values of the investments in this type have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments (one quarter in arrears plus current quarter cash flows). As of June 30, 2016, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve the buyer before the sale of the investments can be completed.

Note 4. Derivative Financial Instruments

(A) Overview of Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps and forward contracts. Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded." Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

The derivative instruments held by INPRS are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

All investment derivatives discussed below are included within the Investment Risk Schedules, which precede this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio. INPRS holds investments in limited partnership and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the INPRS' derivatives.

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date. INPRS' investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, INPRS' investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the fair value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions.

Notes to the Financial Statements, continued June 30, 2016

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange-traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value is determined by external pricing services using various proprietary methods.

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk. The fair value is determined by external pricing services using various proprietary methods.

Forwards

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

The Fund enters into foreign currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

Notes to the Financial Statements, continued June 30, 2016

(B) Derivative Contracts

The table below summarizes INPRS' derivative contracts for the year ended June 30, 2016:

(dollars in thousands)

Investment Derivatives	Change in Fair Value	Fair Value	Notional
Futures:			
Index Futures – Long	\$ (16,837)	\$ (16,837)	\$ 655,537
Commodity Futures – Long	17,313	17,313	1,287,059
Fixed Income Futures – Long	18,922	18,922	674,041
Fixed Income Futures – Short	(5,486)	(5,486)	(517,326)
Total Futures	13,912	13,912	2,099,311
Options:			
Currency Spot Options Bought	164	953	42,585
Currency Spot Options Written	423	(612)	56,980
Interest Rate Options Bought	695	3,940	344,950
Interest Rate Options Written	(864)	(4,175)	497,720
Fixed Income Options Bought	(31)	36	36
Fixed Income Options Written	(26)	(43)	(43)
Inflation Rate Swaptions Bought	(29)	1	31,610
Total Options	332	100	973,838
Swaps:			
Interest Rate Swaps - Pay Fixed Receive Variable	(13,047)	(16,923)	702,146
Interest Rate Swaps - Pay Variable Receive Fixed	2,720	2,156	428,182
Overnight Index Interest Rate Swaps - Pay Fixed Receive Variable	(15)	(15)	6,626
Overnight Index Interest Rate Swaps - Pay Variable Receive Fixed	(4)	(45)	8,272
Inflation Swaps- Pay Fixed Receive Variable	(643)	(666)	37,690
Inflation Swaps- Pay Variable Receive Fixed	303	303	4,708
Currency Swaps	135	134	27,664
Total Return Swaps	98	98	15,142,148
Credit Default Swaps Single Name - Buy Protection	(76)	(115)	62,670
Credit Default Swaps Single Name - Sell Protection	126	(150)	13,325
Credit Default Swaps Index - Buy Protection	(84)	(427)	13,300
Credit Default Swaps Index - Sell Protection	192	674	29,810
Total Swaps	(10,295)	(14,976)	16,476,541
Total Derivatives	\$ 3,949	\$ (964)	\$ 19,549,690

Notes to the Financial Statements, continued June 30, 2016

The table below summarizes the swap maturity profile as of June 30, 2016.

(dollars in thousands)

Swap Type	Swap Maturity Profile at June 30, 2016					
	< 1 yr	1-5 yrs	5-10 yrs	10-20 yrs	20+ yrs	Total
Interest Rate Swaps - Pay Fixed Receive Variable	\$ 142	\$ (4,545)	\$ (5,432)	\$ (2,427)	\$ (4,661)	\$ (16,923)
Interest Rate Swaps - Pay Variable Receive Fixed	(70)	2,881	459	(1,162)	48	2,156
Overnight Index Interest Rate Swaps - Pay Fixed Receive Variable	(15)	-	-	-	-	(15)
Overnight Index Interest Rate Swaps - Pay Variable Receive Fixed	-	(45)	-	-	-	(45)
Inflation Swaps - Pay Fixed Receive Variable	-	(666)	-	-	-	(666)
Inflation Swaps - Pay Variable Receive Fixed	-	-	39	264	-	303
Currency Swaps	-	(77)	(134)	345	-	134
Total Return Swaps	98	-	-	-	-	98
Credit Default Swaps Single Name - Buy Protection	-	(115)	-	-	-	(115)
Credit Default Swaps Single Name - Sell Protection	-	(78)	(66)	-	(6)	(150)
Credit Default Swaps Index - Buy Protection	-	(427)	-	-	-	(427)
Credit Default Swaps Index - Sell Protection	-	674	-	-	-	674
Total Swap Fair Value	\$ 155	\$ (2,398)	\$ (5,134)	\$ (2,980)	\$ (4,619)	\$ (14,976)

(C) Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the agency would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in an unrealized gain position at June 30, 2016, was \$21.59 million, of which \$18.61 million was uncollateralized.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

The table below summarizes the counterparty positions as of June 30, 2016:

(dollars in thousands)

Swaps Counterparty	S&P Rating	Fair Value			Collateral	
		Receivable Unrealized Gain	Payable (Unrealized Loss)	Total Fair Value	Posted	Received
Bank of America	BBB+	\$ 98	\$ (129)	\$ 49	\$ 100	\$ (210)
Banque Nationale De Paris	A	1,478	(312)	1,288	-	(1,280)
Barclays	BBB	203	(104)	(86)	-	-
Citigroup Inc.	BBB+	665	(870)	(315)	1,107	(350)
CME Group	AA-	8,781	(14,361)	(9,298)	800	-
Credit Suisse	BBB+	443	(125)	401	56	(202)
Deutsche Bank	BBB+	5,661	(5,873)	(167)	200	(510)
Goldman Sachs	BBB+	174	(527)	(405)	1,930	-
HSBC Securities Inc.	A	7	(186)	(186)	-	(1,680)
Intercontinental Exchange Inc.	A	598	(490)	247	283	-
JPMorgan Chase Bank	A-	306	(374)	(111)	390	-
London Clearing House	BBB+	2,643	(8,421)	(6,732)	131	-
Morgan Stanley	BBB+	529	(138)	339	1,550	(950)
Total		\$ 21,586	\$ (31,910)	\$ (14,976)	\$ 6,547	\$ (5,182)

(D) Interest Rate Risk

INPRS has exposure to interest rate risk due to investments in interest rate and inflation swaps and forward mortgage-backed securities (TBAs). The required risk disclosures are included in the Interest Rate Risk schedule in Note 3 (F). The table below summarizes INPRS' investments that are highly sensitive to interest rate changes:

(dollars in thousands)

Reference Currency	Pays	Receives	Fair Value	Notional
Interest Rate Swap- Pay Fixed Receive Variable:				
U.S. Dollar	1.32% to 2.50%	3M USD LIBOR	\$ (14,838)	\$ 475,112
Brazilian Real	12.29% to 15.77%	1D BRL CDI	1,496	54,093
Pound Sterling	0.36%	12M GBP WMBA SONIA COMPOUND	(7)	45,344
Euro Currency Unit	0.38% to 0.40%	3M EURIBOR REUTERS	8	26,874
Pound Sterling	1.60% to 2.25%	6M GBP LIBOR BBA	(1,613)	20,707
Euro Currency Unit	0.00% to 1.70%	6M EURIBOR REUTERS	(634)	20,558
Japanese Yen	0.30% to 0.90%	6M JPY LIBOR BBA	(754)	16,967
Colombian Peso	5.19% to 7.26%	1D COP COOVIBR	50	14,506
Hungarian Forint	1.38% to 2.42%	6M BUBOR REUTERS	(208)	6,952
Indian Rupee	6.42%	INR MIBOR OIS COMPOUND	33	5,928
Malaysian Ringgit	0.00% to 4.52%	3M KLIBOR	(61)	3,775
South Korean Won	3.49% to 3.56%	3M KRW KWDC COD	(421)	2,668
Hong Kong Dollar	1.50%	3M HIBOR BLOOMBERG	40	2,572
Swedish Krona	0.05% to 1.00%	3M SEK STIBOR SIDE	(35)	2,186
Mexican Peso	5.18% to 5.86%	28D MXN TIIE BANXICO	8	1,777
Czech Koruna	0.55%	6M CZK PRIBOR PRBO	(8)	1,173
South African Rand	7.89% to 8.55%	3M ZAR JIBAR SAFEX	6	527
Colombian Peso	5.11%	90 DAYS DTF RATE	15	427
			\$ (16,923)	\$ 702,146
Interest Rate Swap- Pay Variable Receive Fixed:				
U.S. Dollar	3M USD LIBOR BBA	1.75% to 2.75%	\$ 1,264	\$ 255,340
Brazilian Real	1D BRL CDI	10.73% to 14.56%	(507)	51,973
Thailand Baht	6M THB THBFIX REUTERS	1.52% to 1.90%	43	20,547
Euro Currency Unit	6M EURIBOR REUTERS	0.86% to 1.57%	618	18,775
Mexican Peso	28D MXN TIIE BANXICO	5.25% to 7.10%	(135)	15,527
Canadian Dollar	3M CAD BA CDOR	1.50%	400	14,337
Pound Sterling	3M GBP LIBOR BBA	0.40% to 0.46%	26	11,577
South Korean Won	3M KRW CD KSDA	1.46% to 2.88%	122	10,618
South African Rand	3M ZAR JIBAR SAFEX	6.225% to 7.64%	(197)	9,578
South Korean Won	3M KRW KWDC COD	2.03% to 2.94%	151	6,454
Chinese Yuan Renminbi	7D CHINA FIXING REPO RATES	2.75% to 2.98%	50	3,885
Pound Sterling	6M GBP LIBOR BBA	2.19%	302	2,941
Swedish Krona	3M SEK STIBOR SIDE	0.05%	26	2,718
Australian Dollar	6M AUD BBR BBSW	2.50%	47	1,742
Brazilian Real	1M BRL CDI	11.12% to 11.15%	(64)	1,305
Polish Zloty	6M WIBOR WIBO	2.02%	10	865
			\$ 2,156	\$ 428,182

(E) Foreign Currency Risk

INPRS is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 3 (H).

At June 30, 2016, INPRS' investments included a foreign currency contract receivable balance of \$5.97 billion and an off-setting foreign currency contract payable of \$5.95 billion

The net loss recognized for the fiscal year ended June 30, 2016 due to foreign currency transactions was \$13.51 million.

Note 5. Long Term Commitments for Alternative Investments

INPRS enters into long-term commitments for funding other investments in private equity and private real estate. These amounts include Euro currency, Norwegian Krone and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2016, is as follows:

(dollars in thousands)

Currency	Total Unfunded Commitments
U.S. Dollar	\$ 2,276,253
Euro Currency Unit	31,144
Norwegian Krone	3,675
British Pound Sterling	872
Total	<u>\$ 2,311,944</u>

Note 6. Risk Management

INPRS is exposed to various risks that could lead to loss and disruption to its operations, including damage to property owned by INPRS; personal injury or property damage liabilities; errors, omissions and theft by employees; certain employee death benefits, employee health benefits and unemployment and worker's compensation costs for INPRS employees; and breach of fiduciary responsibility.

For risks related to physical loss and liability, employee benefits and fiduciary responsibility, INPRS purchases commercial insurance for property, general liability, employee crime, employee health and unemployment, and fiduciary responsibility. No settlements have exceeded the insurance coverage for each of the past three years. INPRS records expenses for losses, if any, as the liabilities are incurred or replacement items are purchased.

Note 7. Contingent Liabilities

INPRS participates in lawsuits that, in management's opinion, will not have a material effect on the financial statements.

Note 8. Net Pension Liability and Actuarial Information – Defined Benefit Plans

The components of the net pension liability of each defined benefit retirement plan as of June 30, 2016:

(dollars in thousands)

Pre-Funded Defined Benefit Pension Trust Funds	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Surplus) (a) - (b)	Fiduciary Net Position as a Percent of Total Pension Liability (b) / (a)
PERF	\$ 18,408,947	\$ 13,870,502	\$ 4,538,445	75.3 %
TRF 1996 Account	6,391,750	5,611,230	780,520	87.8
1977 Fund	5,039,836	4,950,999	88,837	98.2
JRS	501,125	441,790	59,335	88.2
EG&C Plan	138,965	111,329	27,636	80.1
PARF	85,033	52,792	32,241	62.1
LEDB Plan	4,015	2,919	1,096	72.7
Pay-As-You-Go Defined Benefit Pension Trust Fund				
TRF Pre-1996 Account	\$ 16,840,200	\$ 4,787,529	\$ 12,052,671	28.4 %

The total pension liability is determined by actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. There were no changes in assumptions and methods for financial reporting purposes.

The accompanying Schedule of Contributions in the Required Supplementary Information presents trend information about the amounts contributed to the plan by employers and a nonemployer contributing entity in comparison to the Actuarially Determined Contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and the amortization of any unfunded actuarial accrued liability (or funding excess).

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

Description	PERF	TRF Pre-1996 Account	TRF 1996 Account	1977 Fund	JRS	EG&C Plan	PARF	LEDB Plan
Valuation Date:								
Assets	June 30, 2016							
Liabilities	June 30, 2015 - Member census data as of June 30, 2015 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2015 and June 30, 2016. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2015 to the June 30, 2016 measurement date.							
Actuarial Cost Method (Accounting)	Entry Age Normal (Level Percent of Payroll)							
Actuarial Assumptions:								
Experience Study Date	Period of 4 years ended June 30, 2014	Period of 3 years ended June 30, 2014	Period of 4 years ended June 30, 2014					
Investment Rate of Return (Accounting)	6.75%, net of investment expense, including inflation							
Cost of Living Increases (COLA) or "Ad Hoc" COLA (see Note 1.)	1.0%	1.0%	2.0%	2.5%	1.0%	N/A	1.0%	
Future Salary Increases, including Inflation	2.50% - 4.25%	2.5% - 12.5%	2.5%	2.5%	2.5%	4.0%	2.25%	
Inflation	2.25%							
Mortality	RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2006	RP-2014 White Collar Mortality Table, with Social Security Administration generational improvement scale from 2006	RP-2014 Blue Collar Mortality Table, with Social Security Administration generational improvement scale from 2006	RP-2014 White Collar Mortality Table, with Social Security Administration generational improvement scale from 2006	RP-2014 Blue Collar Mortality Table, with Social Security Administration generational improvement scale from 2006	RP-2014 White Collar Mortality Table, with Social Security Administration generational improvement scale from 2006		

The long-term return expectation for the INPRS defined benefit retirement plans has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

Indiana Public Retirement System

Notes to the Financial Statements, continued June 30, 2016

	Geometric Basis	
	Long-Term Expected Real Rate of Return	Target Asset Allocation
Public Equity	5.7 %	22.0 %
Private Equity	6.2	10.0
Fixed Income – Ex Inflation-Linked	2.7	24.0
Fixed Income – Inflation-Linked	0.7	7.0
Commodities	2.0	8.0
Real Estate	2.7	7.0
Absolute Return	4.0	10.0
Risk Parity	5.0	12.0

Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the Board, and contributions required by the State of Indiana (the nonemployer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

(dollars in thousands)

Pre-Funded Defined Benefit Pension Trust Funds	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
PERF	\$ 6,518,281	\$ 4,538,445	\$ 2,892,901
TRF 1996 Account	1,737,603	780,520	15,494
1977 Fund	907,182	88,837	(571,476)
JRS	117,520	59,335	10,549
EG&C Plan	46,676	27,636	12,008
PARF	42,865	32,241	23,483
LEDB Plan	1,398	1,096	832
Pay-As-You-Go Defined Benefit Pension Trust Fund			
TRF Pre-1996 Account	\$ 13,630,767	\$ 12,052,671	\$ 10,707,809

Note 9. Subsequent Events

Financial Statement Events

Events or transactions that were known prior to the date the financial statements were issued, that provided additional evidence about conditions that existed at June 30, 2016, were not material to the financial statements and were not recognized in the financial statements for the year ended June 30, 2016.

Events or transactions that were known prior to the date the financial statements were issued, that provided additional evidence about conditions that did not exist at June 30, 2016, were not material to the financial statements and were not disclosed in the financial statements for the year ended June 30, 2016.

Legislative Changes

Below is a summary of significant legislative changes that are effective July 1, 2016. These changes have been reflected in the actuarial valuations as of June 30, 2016.

Public Employees' Retirement Fund (HEA 1161)

- PERF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

Teachers' Retirement Fund – TRF Pre-1996 Account (HEA 1161)

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

Teachers' Retirement Fund – TRF 1996 Account (HEA 1161)

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2016. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.

1977 Police Officers' and Firefighters' Pension and Disability Fund

- A 1.1 percent COLA was approved for eligible participants effective July 1, 2016, in accordance with IC 36-8-8-15.

Judges Retirement System

- A 3.1 percent COLA was approved for eligible participants effective July 1, 2016, in accordance with IC 33-38-8-25.

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (HEA 1161)

- EG&C Plan members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2016. The amount of the one-time check ranged from \$125 to \$400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2015, and who was entitled to receive a monthly benefit on July 1, 2016.



Introduction to Required Supplementary Information and Other Supplementary Schedules

Historical trend information is designed to provide decision-usefulness of the financial reports, improved value for assessing accountability, and greater transparency related to measures of net pension liabilities impacting INPRS. The Schedules of Changes in Net Pension Liability and Net Pension Liability, Schedule of Contributions, Schedule of Investment Returns, and Schedule of Notes to Required Supplemental Information are required in addition to the Financial Statements. Other Supplementary Schedules are presented for the purpose of additional analysis and are not required for the Financial Statements. These supplemental reports are the Pension Relief Statement of Changes in Assets and Liabilities, Schedule of Administrative Expenses, Schedule of Administrative Expenses - Contractual and Professional Services, and the Schedule of Investment Expenses.

Indiana Public Retirement System

Required Supplementary Information For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Public Employees' Retirement Fund

(dollars in thousands)

<u>Changes in Net Pension Liability</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability - Beginning of Year	\$ 17,980,568	\$ 16,732,223	\$ 16,145,681	\$ 15,784,240
Annuity Savings Account (ASA) - Beginning of Year	2,717,173	2,851,501	2,796,103	2,749,449
Excluding ASA - Beginning of Year	15,263,395	13,880,722	13,349,578	13,034,791
Service Cost	191,055	273,910	258,070	270,974
Interest Cost	1,018,993	936,404	895,454	875,616
Experience (Gains) / Losses	(4,870)	247,978	(15,161)	(104,471)
Assumption Changes	-	488,354	-	-
Plan Amendments	-	-	(42,985)	(167,486)
Benefit Payments ²	(786,607)	(752,896)	(680,203)	(662,283)
ASA Annuity Payments	75,036	196,788	119,094	107,520
Net Member Reassignment ³	(5,441)	(8,155)	(3,125)	(5,083)
Other	494	290	-	-
Net Change in Total Pension Liability - Excluding ASA	488,660	1,382,673	531,144	314,787
Net Change in Total Pension Liability - ASA	(60,281)	(134,328)	55,398	46,654
Net Change in Total Pension Liability	428,379	1,248,345	586,542	361,441
Total Pension Liability - Excluding ASA - End of Year	15,752,055	15,263,395	13,880,722	13,349,578
Total Pension Liability - ASA - End of Year	2,656,892	2,717,173	2,851,501	2,796,103
Total Pension Liability - End of Year	\$ 18,408,947	\$ 17,980,568	\$ 16,732,223	\$ 16,145,681
Fiduciary Net Position - Beginning of Year	\$ 13,907,666	\$ 14,104,288	\$ 12,720,601	\$ 12,243,755
Employer Contributions ⁴	615,773	538,059	526,090	455,658
Member Contributions	161,905	169,731	164,189	156,408
Net Investment Income / (Loss)	149,894	43,638	1,553,393	691,332
Benefit Payments ⁵	(936,272)	(913,408)	(828,358)	(791,360)
Net Member Reassignment ⁶	(5,271)	(9,219)	(4,246)	(6,042)
Administrative Expenses ⁷	(24,098)	(25,506)	(27,433)	(29,181)
Other	905	83	52	31
Net Change in Fiduciary Net Position	(37,164)	(196,622)	1,383,687	476,846
Fiduciary Net Position - End of Year	\$ 13,870,502	\$ 13,907,666	\$ 14,104,288	\$ 12,720,601
Net Pension Liability	\$ 4,538,445	\$ 4,072,902	\$ 2,627,935	\$ 3,425,080
Fiduciary Net Position as a Percentage of the Total Pension Liability	75.3 %	77.3 %	84.3 %	78.8 %
Covered Payroll ⁸	\$ 4,853,224	\$ 4,804,145	\$ 4,896,635	\$ 4,700,000
Net Pension Liability as a Percentage of Covered Payroll	93.5 %	84.8 %	53.7 %	72.9 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

³Includes net interfund transfers, except for interfund transfers of ASA balances.

⁴Includes \$317 thousand for 2016 and \$290 thousand for 2015 of employer service purchases.

⁵Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

⁶Includes net interfund transfers.

⁷Includes \$1,302 thousand for 2016 and \$1,213 thousand for 2015 of contributions by INPRS for its employees.

⁸2013 covered payroll was adjusted to reflect actual contribution rates.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Teachers' Retirement Fund Pre-1996 Account

(dollars in thousands)

<u>Changes in Net Pension Liability</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability - Beginning of Year	\$ 17,017,747	\$ 16,355,216	\$ 16,463,598	\$ 16,522,015
Annuity Savings Account (ASA) - Beginning of Year	1,421,455	1,715,340	1,814,049	1,974,076
Excluding ASA - Beginning of Year	15,596,292	14,639,876	14,649,549	14,547,939
Service Cost	46,787	57,751	68,860	81,343
Interest Cost	1,019,403	959,895	961,628	957,228
Experience (Gains) / Losses	(5,794)	(140,466)	(70,517)	(40,719)
Assumption Changes	-	1,033,158	-	-
Plan Amendments	-	-	(25,524)	-
Benefit Payments ²	(1,118,122)	(1,100,434)	(1,034,563)	(988,335)
ASA Annuity Payments	35,185	143,225	93,982	86,941
Net Member Reassignment ³	-	3,266	(3,802)	-
Other	1,321	21	263	5,152
Net Change in Total Pension Liability - Excluding ASA	(21,220)	956,416	(9,673)	101,610
Net Change in Total Pension Liability - ASA	(156,327)	(293,885)	(98,709)	(160,027)
Net Change in Total Pension Liability	(177,547)	662,531	(108,382)	(58,417)
Total Pension Liability - Excluding ASA - End of Year	15,575,072	15,596,292	14,639,876	14,649,549
Total Pension Liability - ASA - End of Year	1,265,128	1,421,455	1,715,340	1,814,049
Total Pension Liability - Ending	\$ 16,840,200	\$ 17,017,747	\$ 16,355,216	\$ 16,463,598
Fiduciary Net Position - Beginning of Year	\$ 5,099,910	\$ 5,501,867	\$ 5,215,202	\$ 5,058,910
Employer Contributions	5,048	5,811	6,325	9,484
Nonemployer Contributing Entity Contributions	887,500	845,616	825,617	1,003,596
Member Contributions	31,529	41,740	47,028	45,421
Net Investment Income / (Loss)	42,429	36,885	647,581	315,598
Benefit Payments ⁴	(1,272,954)	(1,328,854)	(1,229,301)	(1,212,945)
Net Member Reassignment ⁵	631	3,354	(3,594)	3,059
Administrative Expenses	(6,564)	(6,530)	(7,010)	(7,926)
Other	-	21	19	5
Net Change in Fiduciary Net Position	(312,381)	(401,957)	286,665	156,292
Fiduciary Net Position - End of Year	\$ 4,787,529	\$ 5,099,910	\$ 5,501,867	\$ 5,215,202
Net Pension Liability	\$ 12,052,671	\$ 11,917,837	\$ 10,853,349	\$ 11,248,396
Fiduciary Net Position as a Percentage of the Total Pension Liability	28.4 %	30.0 %	33.6 %	31.7 %
Covered Payroll ⁶	\$ 989,093	\$ 1,074,827	\$ 1,262,828	\$ 1,383,428
Net Pension Liability as a Percentage of Covered Payroll	1,218.6 %	1,108.8 %	859.4 %	813.1 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

³Includes net interfund transfers, except for interfund transfers of ASA balances.

⁴Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

⁵Includes net interfund transfers.

⁶2013 represents anticipated covered payroll.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Teachers' Retirement Fund 1996 Account

(dollars in thousands)

<u>Changes in Net Pension Liability</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability - Beginning of Year	\$ 5,905,691	\$ 5,236,993	\$ 4,748,149	\$ 4,338,309
Annuity Savings Account (ASA) - Beginning of Year	1,170,915	1,120,729	990,705	899,339
Excluding ASA - Beginning of Year	4,734,776	4,116,264	3,757,444	3,438,970
Service Cost	167,836	170,892	155,314	147,337
Interest Cost	328,018	287,264	262,263	240,282
Experience (Gains) / Losses	29,876	(40,857)	504	(15,995)
Assumption Changes	-	263,991	-	-
Plan Amendments	-	-	(4,504)	-
Benefit Payments ²	(99,507)	(90,267)	(77,253)	(68,793)
ASA Annuitizations	8,932	22,575	15,151	11,621
Net Member Reassignment ³	4,370	4,890	6,922	-
Other	16	24	423	4,022
Net Change in Total Pension Liability - Excluding ASA	439,541	618,512	358,820	318,474
Net Change in Total Pension Liability - ASA	46,518	50,186	130,024	91,366
Net Change in Total Pension Liability	486,059	668,698	488,844	409,840
Total Pension Liability - Excluding ASA - End of Year	5,174,317	4,734,776	4,116,264	3,757,444
Total Pension Liability - ASA - End of Year	1,217,433	1,170,915	1,120,729	990,705
Total Pension Liability - Ending	\$ 6,391,750	\$ 5,905,691	\$ 5,236,993	\$ 4,748,149
Fiduciary Net Position - Beginning of Year	\$ 5,379,113	\$ 5,189,442	\$ 4,433,677	\$ 4,018,149
Employer Contributions	215,626	205,763	194,751	180,714
Member Contributions	88,430	86,515	81,802	77,532
Net Investment Income / (Loss)	64,203	25,587	586,782	258,111
Benefit Payments ⁴	(135,290)	(127,899)	(108,720)	(97,157)
Net Member Reassignment ⁵	4,735	5,865	7,836	2,806
Administrative Expenses	(5,603)	(6,184)	(6,707)	(6,482)
Other	16	24	21	4
Net Change in Fiduciary Net Position	232,117	189,671	755,765	415,528
Fiduciary Net Position - End of Year	\$ 5,611,230	\$ 5,379,113	\$ 5,189,442	\$ 4,433,677
Net Pension Liability	\$ 780,520	\$ 526,578	\$ 47,551	\$ 314,472
Fiduciary Net Position as a Percentage of the Total Pension Liability	87.8 %	91.1 %	99.1 %	93.4 %
Covered Payroll ⁶	\$ 2,881,397	\$ 2,742,187	\$ 2,598,115	\$ 2,442,496
Net Pension Liability as a Percentage of Covered Payroll	27.1 %	19.2 %	1.8 %	12.9 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Excludes ASA lump sum payments to retired members or refunds of accumulated member contributions associated with ASA balances.

³Includes net interfund transfers, except for interfund transfers of ASA balances.

⁴Includes ASA lump sum payments to retired members and refunds of employee contributions associated with ASA balances.

⁵Includes net interfund transfers.

⁶2013 covered payroll was adjusted to reflect actual contribution rates.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ 1977 Police Officers' and Firefighters' Pension and Disability Fund

(dollars in thousands)

<u>Changes in Net Pension Liability</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability - Beginning of Year	\$ 4,680,695	\$ 4,706,998	\$ 4,392,947	\$ 4,122,436
Service Cost	129,369	138,204	133,075	130,912
Interest Cost	320,218	323,129	301,824	283,733
Experience (Gains) / Losses	41,723	(61,640)	(11,754)	(39,592)
Assumption Changes	-	(309,801)	-	(4,810)
Plan Amendments	-	-	-	-
Benefit Payments ²	(132,746)	(116,490)	(109,094)	(99,803)
Net Member Reassignment ³	(74)	-	-	71
Other	651	295	-	-
Net Change in Total Pension Liability	359,141	(26,303)	314,051	270,511
Total Pension Liability - End of Year	\$ 5,039,836	\$ 4,680,695	\$ 4,706,998	\$ 4,392,947
Fiduciary Net Position - Beginning of Year	\$ 4,828,415	\$ 4,757,978	\$ 4,116,861	\$ 3,817,013
Employer Contributions ⁴	151,674	146,697	140,119	137,111
Member Contributions	44,918	43,523	41,791	40,786
Net Investment Income / (Loss)	60,320	(1,600)	570,058	223,510
Benefit Payments ²	(132,746)	(116,490)	(109,094)	(99,803)
Net Member Reassignment ³	(74)	-	-	71
Administrative Expenses	(1,651)	(1,708)	(1,787)	(1,845)
Other	143	15	30	18
Net Change in Fiduciary Net Position	122,584	70,437	641,117	299,848
Fiduciary Net Position - End of Year	\$ 4,950,999	\$ 4,828,415	\$ 4,757,978	\$ 4,116,861
<u>Net Pension Liability / (Asset)</u>				
Total Pension Liability	\$ 5,039,836	\$ 4,680,695	\$ 4,706,998	\$ 4,392,947
Fiduciary Net Position	4,950,999	4,828,415	4,757,978	4,116,861
Net Pension Liability / (Asset)	\$ 88,837	\$ (147,720)	\$ (50,980)	\$ 276,086
Fiduciary Net Position as a Percentage of the Total Pension Liability	98.2 %	103.2 %	101.1 %	93.7 %
Covered Payroll ⁵	\$ 771,949	\$ 745,336	\$ 710,581	\$ 695,000
Net Pension Liability / (Asset) as a Percentage of Covered Payroll	11.5 %	(19.8) %	(7.2) %	39.7 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴Includes \$375 thousand for 2016 and \$295 thousand for 2015 of employer service purchases.

⁵2013 covered payroll was adjusted to reflect actual contribution rates.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Judges' Retirement System

(dollars in thousands)

<u>Changes in Net Pension Liability</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total Pension Liability - Beginning of Year	\$ 468,944	\$ 464,855	\$ 453,110	\$ 437,854
Service Cost	13,870	15,283	15,302	16,084
Interest Cost	31,889	31,753	30,992	30,047
Experience (Gains) / Losses	7,182	8,411	(16,026)	(13,603)
Assumption Changes	-	(31,926)	-	186
Plan Amendments	-	-	-	-
Benefit Payments ²	(20,922)	(19,432)	(18,527)	(17,579)
Net Member Reassignment ³	-	-	4	121
Other	162	-	-	-
Net Change in Total Pension Liability	32,181	4,089	11,745	15,256
Total Pension Liability - End of Year	\$ 501,125	\$ 468,944	\$ 464,855	\$ 453,110
Fiduciary Net Position - Beginning of Year	\$ 437,352	\$ 432,730	\$ 375,752	\$ 262,326
Employer Contributions	16,946	21,020	20,895	111,419
Member Contributions	3,239	3,292	2,856	2,631
Net Investment Income / (Loss)	5,323	(102)	51,890	16,955
Benefit Payments ²	(20,922)	(19,432)	(18,527)	(17,579)
Net Member Reassignment ³	-	-	4	121
Administrative Expenses	(148)	(165)	(146)	(126)
Other	-	9	6	5
Net Change in Fiduciary Net Position	4,438	4,622	56,978	113,426
Fiduciary Net Position - End of Year	\$ 441,790	\$ 437,352	\$ 432,730	\$ 375,752
<u>Net Pension Liability</u>				
Total Pension Liability	\$ 501,125	\$ 468,944	\$ 464,855	\$ 453,110
Fiduciary Net Position	441,790	437,352	432,730	375,752
Net Pension Liability	\$ 59,335	\$ 31,592	\$ 32,125	\$ 77,358
Fiduciary Net Position as a Percentage of the Total Pension Liability	88.2 %	93.3 %	93.1 %	82.9 %
Covered Payroll ⁴	\$ 51,382	\$ 48,582	\$ 46,041	\$ 47,595
Net Pension Liability / (Asset) as a Percentage of Covered Payroll	115.5 %	65.0 %	69.8 %	162.5 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 represents anticipated covered payroll.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

(dollars in thousands)

Changes in Net Pension Liability

	2016	2015	2014	2013
Total Pension Liability - Beginning of Year	\$ 132,796	\$ 123,601	\$ 118,097	\$ 113,282
Service Cost	3,011	3,905	3,841	3,811
Interest Cost	8,955	8,384	8,031	7,740
Experience (Gains) / Losses	470	845	(430)	(1,845)
Assumption Changes	-	2,669	-	(40)
Plan Amendments	-	-	-	-
Benefit Payments ²	(6,267)	(6,608)	(5,938)	(4,836)
Net Member Reassignment ³	-	-	-	(15)
Other	-	-	-	-
Net Change in Total Pension Liability	6,169	9,195	5,504	4,815
Total Pension Liability - End of Year	\$ 138,965	\$ 132,796	\$ 123,601	\$ 118,097
Fiduciary Net Position - Beginning of Year	\$ 110,038	\$ 110,657	\$ 97,019	\$ 76,543
Employer Contributions	5,367	5,215	5,359	19,740
Member Contributions	1,016	1,004	1,019	1,006
Net Investment Income / (Loss)	1,313	(71)	13,339	4,702
Benefit Payments ²	(6,245)	(6,608)	(5,938)	(4,836)
Net Member Reassignment ³	(21)	-	-	(15)
Administrative Expenses	(139)	(159)	(141)	(121)
Other	-	-	-	-
Net Change in Fiduciary Net Position	1,291	(619)	13,638	20,476
Fiduciary Net Position - End of Year	\$ 111,329	\$ 110,038	\$ 110,657	\$ 97,019

Net Pension Liability

Total Pension Liability	\$ 138,965	\$ 132,796	\$ 123,601	\$ 118,097
Fiduciary Net Position	111,329	110,038	110,657	97,019
Net Pension Liability	\$ 27,636	\$ 22,758	\$ 12,944	\$ 21,078

Fiduciary Net Position as a Percentage of the Total Pension Liability

	80.1 %	82.9 %	89.5 %	82.2 %
Covered Payroll ⁴	\$ 25,526	\$ 25,133	\$ 25,825	\$ 24,675
Net Pension Liability / (Asset) as a Percentage of Covered Payroll	108.3 %	90.6 %	50.1 %	85.4 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 covered payroll was adjusted to reflect actual contribution rates.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Prosecuting Attorneys' Retirement Fund

(dollars in thousands)

Changes in Net Pension Liability

	2016	2015	2014	2013
Total Pension Liability - Beginning of Year	\$ 77,861	\$ 65,336	\$ 61,940	\$ 56,080
Service Cost	1,626	1,603	1,587	1,568
Interest Cost	5,239	4,409	4,207	3,816
Experience (Gains) / Losses	4,058	4,551	-	1,474
Assumption Changes	-	5,216	-	(109)
Plan Amendments	-	-	-	1,346
Benefit Payments ²	(3,747)	(3,254)	(2,398)	(2,235)
Net Member Reassignment ³	-	-	-	-
Other	(4)	-	-	-
Net Change in Total Pension Liability	7,172	12,525	3,396	5,860
Total Pension Liability - End of Year	\$ 85,033	\$ 77,861	\$ 65,336	\$ 61,940
Fiduciary Net Position - Beginning of Year	\$ 53,424	\$ 54,507	\$ 47,920	\$ 27,689
Employer Contributions	1,440	1,063	1,174	19,443
Member Contributions	1,279	1,269	1,334	1,271
Net Investment Income / (Loss)	589	(34)	6,581	1,897
Benefit Payments ²	(3,747)	(3,254)	(2,398)	(2,235)
Net Member Reassignment ³	-	-	-	-
Administrative Expenses	(193)	(127)	(108)	(145)
Other	-	-	4	-
Net Change in Fiduciary Net Position	(632)	(1,083)	6,587	20,231
Fiduciary Net Position - End of Year	\$ 52,792	\$ 53,424	\$ 54,507	\$ 47,920

Net Pension Liability

Total Pension Liability	\$ 85,033	\$ 77,861	\$ 65,336	\$ 61,940
Fiduciary Net Position	52,792	53,424	54,507	47,920
Net Pension Liability	\$ 32,241	\$ 24,437	\$ 10,829	\$ 14,020

Fiduciary Net Position as a Percentage of the Total Pension Liability

	62.1 %	68.6 %	83.4 %	77.4 %
Covered Payroll ⁴	\$ 21,372	\$ 21,145	\$ 20,608	\$ 18,805
Net Pension Liability / (Asset) as a Percentage of Covered Payroll	150.9 %	115.6 %	52.5 %	74.6 %

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴2013 represents anticipated covered payroll.

Indiana Public Retirement System

Required Supplementary Information, continued For the Year Ended June 30

Schedules of Changes in Net Pension Liability and Net Pension Liability¹ Legislators' Defined Benefit Plan

(dollars in thousands)

Changes in Net Pension Liability

	2016	2015	2014	2013
Total Pension Liability - Beginning of Year	\$ 4,325	\$ 4,166	\$ 4,285	\$ 4,497
Service Cost	2	3	3	2
Interest Cost	280	269	277	291
Experience (Gains) / Losses	(233)	(68)	(36)	(140)
Assumption Changes	-	325	-	-
Plan Amendments	-	-	-	-
Benefit Payments ²	(359)	(370)	(363)	(365)
Net Member Reassignment ³	-	-	-	-
Other	-	-	-	-
Net Change in Total Pension Liability	(310)	159	(119)	(212)
Total Pension Liability - End of Year	\$ 4,015	\$ 4,325	\$ 4,166	\$ 4,285
Fiduciary Net Position - Beginning of Year	\$ 3,174	\$ 3,489	\$ 3,337	\$ 3,385
Employer Contributions	138	131	138	150
Member Contributions	-	-	-	-
Net Investment Income / (Loss)	27	(5)	439	201
Benefit Payments ²	(359)	(370)	(363)	(365)
Net Member Reassignment ³	-	-	-	-
Administrative Expenses	(61)	(71)	(62)	(34)
Other	-	-	-	-
Net Change in Fiduciary Net Position	(255)	(315)	152	(48)
Fiduciary Net Position - End of Year	\$ 2,919	\$ 3,174	\$ 3,489	\$ 3,337

Net Pension Liability

Total Pension Liability	\$ 4,015	\$ 4,325	\$ 4,166	\$ 4,285
Fiduciary Net Position	2,919	3,174	3,489	3,337
Net Pension Liability	\$ 1,096	\$ 1,151	\$ 677	\$ 948

Fiduciary Net Position as a Percentage of the Total Pension Liability

	72.7 %	73.4 %	83.7 %	77.9 %
Covered Payroll ⁴	N/A	N/A	N/A	N/A
Net Pension Liability / (Asset) as a Percentage of Covered Payroll ⁴	N/A	N/A	N/A	N/A

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²Includes refunds of employee contributions.

³Includes net interfund transfers.

⁴Is a closed plan with no payroll.

Indiana Public Retirement System

Required Supplementary Information, continued

Schedule of Contributions

(dollars in thousands)

For the Year Ended June 30	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC ¹	Contribution Deficiency (Excess)	Contributions as a Percentage of ADC	Covered Payroll	Contributions as a Percentage of Covered Payroll
Public Employees' Retirement Fund						
2016 ^{2,3}	\$ 490,538	\$ 547,684	\$ (57,146)	111.6 %	\$ 4,853,224	11.3 %
2015 ^{2,4}	517,717	536,467	(18,750)	103.6	4,804,145	11.2
2014 ^{2,5}	528,562	519,576	8,986	98.3	4,896,635	10.6
2013 ²	464,047	455,658	8,389	98.2	4,700,000	9.7
2012 ²	449,388	397,843	51,545	88.5	4,550,000	8.7
2011 ²	351,000	342,779	8,221	97.7	4,500,000	7.6
2010 ²	329,731	331,090	(1,359)	100.4	4,800,000	6.9
2009 ²	326,170	323,151	3,019	99.1	4,850,000	6.7
2008 ²	303,700	303,877	(177)	100.1	4,550,000	6.7
2007 ²	259,768	260,150	(382)	100.1	4,325,000	6.0
Teachers' Retirement Fund Pre-1996 Account						
2016 ⁶	\$ 892,548	\$ 892,548	\$ -	100.0 %	\$ 989,093	90.2 %
2015 ⁶	851,427	851,427	-	100.0	1,074,827	79.2
2014 ⁶	831,942	831,942	-	100.0	1,262,828	65.9
2013 ^{6,7}	1,013,080	1,013,080	-	100.0	1,383,428	73.2
2012 ⁶	764,423	764,423	-	100.0	1,637,066	46.7
2011 ⁶	748,978	748,978	-	100.0	1,762,750	42.5
2010 ⁶	731,149	731,149	-	100.0	1,865,102	39.2
2009 ⁶	706,366	706,366	-	100.0	2,030,484	34.8
2008 ⁶	675,682	675,682	-	100.0	2,295,816	29.4
2007 ⁶	636,039	636,039	-	100.0	2,376,390	26.8
Teachers' Retirement Fund 1996 Account						
2016 ²	\$ 180,375	\$ 215,626	\$ (35,251)	119.5 %	\$ 2,881,397	7.5 %
2015 ²	178,260	205,763	(27,503)	115.4	2,742,187	7.5
2014 ²	177,711	194,751	(17,040)	109.6	2,598,115	7.5
2013 ²	167,311	180,714	(13,403)	108.0	2,442,496	7.4
2012 ²	154,800	181,067	(26,267)	117.0	2,400,000	7.5
2011 ²	135,057	166,633	(31,576)	123.4	2,225,000	7.5
2010 ²	99,000	154,491	(55,491)	156.1	2,200,000	7.0
2009 ²	125,330	147,425	(22,095)	117.6	2,075,000	7.1
2008 ²	130,305	132,446	(2,141)	101.6	1,825,000	7.3
2007 ²	150,415	117,001	33,414	77.8	1,675,000	7.0
1977 Police Officers' and Firefighters' Pension and Disability Fund						
2016 ^{2,8}	\$ 113,353	\$ 151,299	\$ (37,946)	133.5 %	\$ 771,949	19.6 %
2015 ^{2,9}	118,881	146,402	(27,521)	123.2	745,336	19.6
2014 ²	103,425	140,119	(36,694)	135.5	710,581	19.7
2013 ²	112,590	137,111	(24,521)	121.8	695,000	19.7
2012 ²	132,549	135,605	(3,056)	102.3	690,000	19.7
2011 ²	117,820	133,726	(15,906)	113.5	687,000	19.5
2010 ²	94,135	130,775	(36,640)	138.9	670,000	19.5
2009 ^{2,10}	64,285	64,285	-	100.0	330,000	19.5
2008 ^{2,11}	123,825	133,196	(9,371)	107.6	635,000	21.0
2007 ^{2,11}	114,075	122,712	(8,637)	107.6	585,000	21.0

¹Contributions are from employers except for the Teachers' Retirement Fund TRF Pre-1996 Account, which are predominately from a nonemployer contributing entity.

²Actuarially determined contribution and covered payroll were adjusted to reflect actual covered payroll.

³PERF contributions exclude specific financed liabilities of \$317 thousand, and one-time payments of \$59.1 million and \$8.7 million for 6/30/2016.

⁴PERF contributions exclude specific financed liabilities of \$290 thousand for 6/30/2015.

⁵PERF contributions exclude specific financed liabilities of \$6,514 thousand for 6/30/2014.

⁶The Actuarially Determined Contribution (ADC) matches the Contributions since the Contributions are the Nonemployer Contributing Entity Appropriation as determined by State Statute.

⁷In FY2013, the State of Indiana appropriated \$206,796 thousand in additional monies to TRF Pre-1996 Account.

⁸1977 Fund contributions exclude specific financed liabilities of \$375 thousand for 6/30/2016.

⁹1977 Fund contributions exclude specific financed liabilities of \$295 thousand for 6/30/2015.

¹⁰Represents only a half year of activity.

¹¹Fiscal year end as of December 31.

Indiana Public Retirement System

Required Supplementary Information, continued

Schedule of Contributions

(dollars in thousands)

For the Year Ended June 30	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC ¹	Contribution Deficiency (Excess)	Contributions as a Percentage of ADC	Covered Payroll	Contributions as a Percentage of Covered Payroll
Judges' Retirement System						
2016 ¹²	\$ 17,485	\$ 16,946	\$ 539	96.9 %	\$ 51,382	33.0 %
2015 ¹²	18,865	21,020	(2,155)	111.4	48,582	43.3
2014 ¹²	27,648	20,895	6,753	75.6	46,041	45.4
2013 ^{12,13}	25,458	111,419	(85,961)	437.7	47,595	234.1
2012 ¹²	19,664	18,896	768	96.1	45,138	41.9
2011 ¹²	18,910	19,200	(290)	101.5	45,764	42.0
2010 ¹²	16,077	18,631	(2,554)	115.9	36,722	50.7
2009 ¹²	16,131	20,861	(4,730)	129.3	36,196	57.6
2008 ¹²	10,028	15,920	(5,892)	158.8	33,729	47.2
2007 ¹²	12,249	14,662	(2,413)	119.7	29,712	49.3
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan						
2016 ^{2,14}	\$ 4,078	\$ 5,297	\$ (1,219)	129.9 %	\$ 25,526	20.8 %
2015 ²	4,820	5,215	(395)	108.2	25,133	20.7
2014 ²	5,341	5,359	(18)	100.3	25,825	20.8
2013 ^{2,15}	4,794	19,740	(14,946)	411.8	24,675	80.0
2012 ²	4,556	5,054	(498)	110.9	24,300	20.8
2011 ²	4,112	5,197	(1,085)	126.4	25,000	20.8
2010 ²	4,200	5,256	(1,056)	125.1	25,300	20.8
2009 ²	5,294	5,294	-	100.0	25,500	20.8
2008 ²	4,918	4,854	64	98.7	23,700	20.5
2007 ²	4,410	3,359	1,051	76.2	21,000	16.0
Prosecuting Attorneys' Retirement Fund						
2016 ¹²	\$ 1,381	\$ 1,440	\$ (59)	104.3 %	\$ 21,372	6.7 %
2015 ¹²	1,419	1,063	356	74.9	21,145	5.0
2014 ¹²	2,345	1,174	1,171	50.1	20,608	5.7
2013 ^{12,16}	2,542	19,443	(16,901)	764.9	18,805	103.4
2012 ¹²	2,037	1,839	198	90.3	21,705	8.5
2011 ¹²	1,960	170	1,790	8.7	18,082	0.9
2010 ¹²	1,663	170	1,493	10.2	21,016	0.8
2009 ¹²	1,340	170	1,170	12.7	20,782	0.8
2008 ¹²	1,040	170	870	16.3	20,617	0.8
2007 ¹²	1,044	190	854	18.2	18,092	1.1
Legislators' Retirement System - Defined Benefit Plan¹⁷						
2016	\$ 138	\$ 138	\$ -	100.0 %	N/A	N/A
2015	119	131	(12)	110.1	N/A	N/A
2014	138	138	-	100.0	N/A	N/A
2013	140	150	(10)	107.1	N/A	N/A
2012	113	112	1	99.1	N/A	N/A
2011	113	-	113	-	N/A	N/A
2010	63	-	63	-	N/A	N/A
2009	45	100	(55)	222.2	N/A	N/A
2008	66	100	(34)	151.5	N/A	N/A
2007	120	100	20	83.3	N/A	N/A

¹Contributions are from employers except for the Teachers' Retirement Fund TRF Pre-1996 Account, which are predominately from a nonemployer contributing entity.

²Actuarially determined contribution and covered payroll were adjusted to reflect actual covered payroll.

¹²Covered payroll represents anticipated covered payroll except for 6/30/2016, 6/30/2015 and 6/30/2014, which represents actual covered payroll.

¹³In FY2013, the State of Indiana appropriated \$90,187 thousand in additional monies to JRS.

¹⁴In FY2016, the State of Indiana appropriated \$70 thousand in additional monies to EG&C Plan.

¹⁵In FY2013, the State of Indiana appropriated \$14,619 thousand in additional monies to EG&C Plan.

¹⁶In FY2013, the State of Indiana appropriated \$17,363 thousand in additional monies to PARF.

¹⁷Is a closed plan with no payroll.

Required Supplementary Information, continued For the Year Ended June 30

Schedule of Investment Returns¹ Annual Money-Weighted Rate of Return, Net of Investment Expense

Pension Trust Funds	2016	2015	2014	2013
Public Employees' Retirement Fund	1.11 %	0.32 %	12.33 %	5.79 %
Teachers' Retirement Fund Pre-1996 Account ²	1.01	0.57	12.71	5.11
Teachers' Retirement Fund 1996 Account ²	1.01	0.57	12.71	5.11
1977 Police Officers' and Firefighters' Pension and Disability Fund	1.22	(0.07)	13.70	5.85
Judges' Retirement System	1.18	(0.06)	13.69	5.24
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	1.17	(0.09)	13.69	5.48
Prosecuting Attorneys' Retirement Fund	1.10	(0.08)	13.70	4.84
Legislators' Defined Benefit Plan	0.84	(0.13)	13.65	6.16
Total INPRS ³	1.10	0.44	12.69	5.57

¹Information is not available prior to 2013. Additional years will be added until 10 years of historical data are shown.

²The Teachers' Retirement Fund Accounts are combined for investment purposes.

³Rate of return also includes Legislators' Defined Contribution Plan, State Employees' Death Benefit Fund, Public Safety Officers' Special Death Benefit Fund and Pension Relief Fund.

Required Supplementary Information, continued For the Year Ended June 30

Schedule of Notes to Required Supplementary Information

Schedules of Changes in Net Pension Liability and Net Pension Liability

Plan Amendments

In 2016, there were no changes to the Plan that impacted the pension benefits during the fiscal year.

Assumption Changes

In 2016, there were no changes to the assumptions that impacted the Net Pension Liability during the fiscal year.

Schedule of Contributions¹

Methods and Assumptions Used in Calculating Actuarially Determined Contributions

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution Rates:

Description	PERF	TRF Pre-1996 Account	TRF 1996 Account	1977 Fund	JRS	EG&C Plan	PARF	LEDB Plan
Valuation Date:	June 30, 2014							
Assets								
Liabilities	June 30, 2013 - Member census data as of June 30, 2013 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2013 and June 30, 2014. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2013 to the June 30, 2014 measurement date.							
Actuarial Cost Method (Funding)	Entry Age Normal (Level Percent of Payroll)							Traditional Unit Credit
Actuarial Amortization Method for Unfunded Liability	Level Dollar							
Actuarial Amortization Period for Unfunded Liability	30 Years, Closed							
Remaining Amortization Period in Years (Weighted) ²	26	25	23	20	21	24	25	16
Asset Valuation Method	4-year smoothing of gains and losses on the Market Value of assets subject to a 20% corridor							
Investment Rate of Return (Funding)	6.75%, net of administrative and investment expense, including inflation							
Cost of Living Increases	1.0%	1.0%		2.25%	4.0%	1.0%	N/A	1.0%
Future Salary Increases, including Inflation	3.25% - 4.5%	3.0% - 12.5%		3.25%	4.0%	3.25%	4.0%	3.0%
Inflation	3.0%							

Trends

Contributions in fiscal year 2013 are higher than in fiscal years 2014-2016 for certain pension trust funds due to 2012 HB 1376, which appropriated additional monies for the following pension trust funds: Teachers' Retirement Fund Pre-1996 Account - \$206,796 thousand, Judges' Retirement Fund - \$90,187 thousand, State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan - \$14,619 thousand, and the Prosecuting Attorneys' Retirement Fund - \$17,363 thousand.

¹Differs from Note 8 schedule as this table is for funding purposes and Note 8 is for financial reporting purposes. The Actuarially Determined Contributions in a given year are determined based on the actuarial valuation dated two fiscal years prior (i.e., rates effective 7-1-16 are based on the 6-30-14 valuation).

²The Actuarial and Remaining Amortization periods will both be "30 years, Open" when a plans reaches 100% funded status.

Pension Relief Statement of Changes in Assets and Liabilities

(dollars in thousands)

	Balance as of June 30, 2015	Additions	Deductions	Balance as of June 30, 2016
<u>Assets:</u>				
Cash	\$ 200	\$ 428,310	\$ 428,171	\$ 339
Short Term Investments	30,356	212,183	215,582	26,957
Contributions Receivable	2,500	-	-	2,500
Total Assets	\$ 33,056	\$ 640,493	\$ 643,753	\$ 29,796
<u>Liabilities:</u>				
Accounts Payable	\$ 15	\$ 215,984	\$ 215,987	\$ 12
Due to Other Funds	2	23	22	3
Due to Other Governments	33,039	202,604	205,862	29,781
Total Liabilities	\$ 33,056	\$ 418,611	\$ 421,871	\$ 29,796

Indiana Public Retirement System

Other Supplementary Schedules, continued
For the Year Ended June 30

Schedule of Administrative Expenses

(dollars in thousands)	2016	2015
<u>Personnel Services</u>		
Salaries and Wages	\$ 12,396	\$ 11,737
Employee Benefits	5,650	5,427
Temporary Services	2,339	5,141
Total Personnel Services	20,385	22,305
<u>Contractual and Professional Services</u>		
Benefit Payment Processing Fees	2,951	2,942
Consulting Services	1,703	2,248
Actuarial Services	1,086	1,355
Legal Services	83	93
Total Contractual and Professional Services	5,823	6,638
<u>Information Technology Services</u>		
Data Processing	2,278	2,692
Software and Licenses	1,747	1,624
Other Computer Services	3,233	1,261
Total Information Technology Services	7,258	5,577
<u>Communications</u>		
Postage	645	724
Telephone	445	352
Printing	188	179
E-communications	120	130
Total Communications	1,398	1,385
<u>Miscellaneous</u>		
Depreciation and Amortization	2,068	2,553
Office Rent and Expenses	888	1,433
Memberships and Training	240	201
Travel	118	98
Equipment Rental	72	72
Other Administrative Expenses	252	225
Total Miscellaneous	3,638	4,582
Subtotal Administrative Expenses	38,502	40,487
Less Amount Allocated to Pension Relief Fund	(33)	(31)
Total Administrative Expenses	\$ 38,469	\$ 40,456

Other Supplementary Schedules, continued For the Year Ended June 30

Schedule of Administrative Expenses - Contractual and Professional Services

(dollars in thousands)

Vendor Name	2016	2015	Nature of Services
Xerox	\$ 3,043	\$ 3,111	Benefit Payment Services
PricewaterhouseCoopers LLP	960	1,165	Actuarial Services
RSM US LLP	405	490	Audit Services
CherryRoad Technologies Inc.	360	312	Application Maintenance and Software Development
Nyhart, Inc.	126	190	Actuarial Services
iLab	-	190	Software Quality Assurance (Transition Fee)
Cspring	120	-	IT Resource Assistance
Loyalty Research Center	86	80	Research Services
Omkar Markand, M.D.	80	53	Medical Consulting
Crowe Horwarth	83	-	Business Continuity and Disaster Recovery
Advisa	70	-	Human Resources Consulting
Orion	-	115	Process Management
KPMG LLP	-	114	IT Strategy Dev Assistance & DB Consulting
Callan	-	89	ASA Annuity/Recordkeeper RFP Consulting
Segal	-	80	Plan Document Consulting
Axia	-	80	Operations Performance Scorecard
Gartner, Inc.	65	63	Project Research & Advisory Service
AllClear	64	64	Identity Theft Protection Services
Level 3	-	61	Call Center Quality Management
Optiv (Formerly FishNet)	56	65	IT Security Services
Automatic Data Processing, Inc.	49	50	Payroll Processing Services
AIRvan Consulting LLC	49	49	Survey Services
CEM Benchmarking, Inc.	45	45	Benchmarking Services
Ice Miller LLP	52	38	Legal Services
Briljant	29	6	Training Documentation Services
Westcomm	23	-	CAFR Production
Funston Advisory Services	-	30	Board Governance Review & Analysis
Groom Law Group Chartered	-	24	Legal Services
Ernst & Young LLP	-	21	Management Consulting
Krieg DeVault LLP	14	14	Legal Services
Stephenson Morow & Semler	9	11	Legal Services
Gonzalez Saggio Harlan	-	2	Legal Services
Farnsworth Group	7	-	Focus Group Research
Towers Perrin	6	-	Human Resources Consulting
Fleming Stage	4	1	Legal Services
Ropes & Gray	4	-	Legal Services
Other	14	25	Other Services
Total	\$ 5,823	\$ 6,638	

Fees paid to investment professionals can be found in the Investment Section.

Indiana Public Retirement System

Other Supplementary Schedules, continued
For the Year Ended June 30

Schedule of Investment Expenses

(dollars in thousands)	2016	2015
Investment Management Fees	\$ 160,565	\$ 177,673
Securities Lending Fees	772	677
<u>Direct Investment Expenses</u>		
Investment Consultants:		
Verus (Formerly Wurts)	600	400
TorreyCove	454	383
Aksia	450	450
Strategic Investment Solutions	-	279
Cutter Associates	356	-
Mercer	319	216
ORG Portfolio Management LLC	-	140
Capital Cities	85	85
MSCI/ISS	56	52
Callan	55	-
CitiGroup	26	26
Ernst & Young	23	42
CBRE, Inc	5	-
Total Investment Consultants	2,429	2,073
Investment Custodian	472	459
Broker Commissions	4,187	4,747
Investment Recordkeeper Fees	5,585	5,439
Investment Staff Expenses	2,201	2,149
Investment Administrative Expenses	957	989
Subtotal Direct Investment Expenses	15,831	15,856
Less Amount Allocated to Pension Relief Fund	(9)	(8)
Total Direct Investment Expenses	15,822	15,848
Total Investment Expenses	\$ 177,159	\$ 194,198

